



Market Vista™ : Select Findings Q4 2018

Data and Analysis – July-September 2018

Market Vista | Overview

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

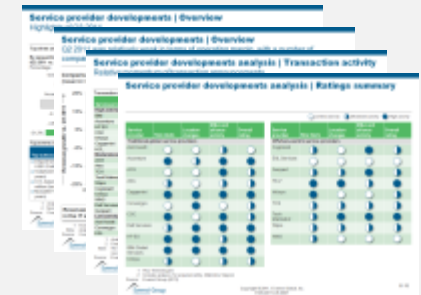
Overall sourcing market

- 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 Q3 2018



North America reported a significant increase in transaction activity majorly in retail & CPG, and technology & communication verticals. US tax reforms, slight relief in regulatory uncertainties, pent up demand, and interest rates contributed to the jump

Focus on digital continued to dominate both service providers' acquisitions and partnerships landscape. Service providers are increasingly leveraging disruptive technologies such as AI and ML to build more strategic digital agenda, drive innovation, and focus on value-added services

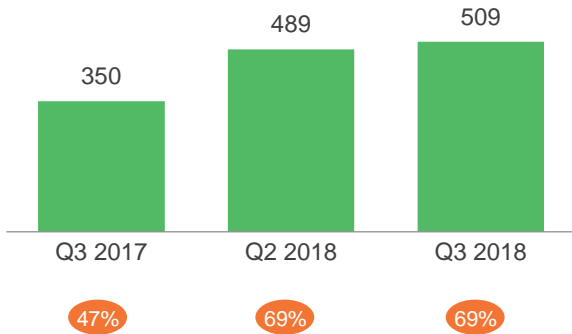
GIC activity continues to be driven by existing adopters, with focus on establishing R&D centers for next-generation technologies

While there was a decline in activity for Europe, non-traditional locations such as Bulgaria and Czech Republic witnessed an increase in activity given high-skilled IT talent, favorable business environment, and excellent R&D & digital infrastructure

Global services dashboard: Q3 2018

Outsourcing/offshoring market overview

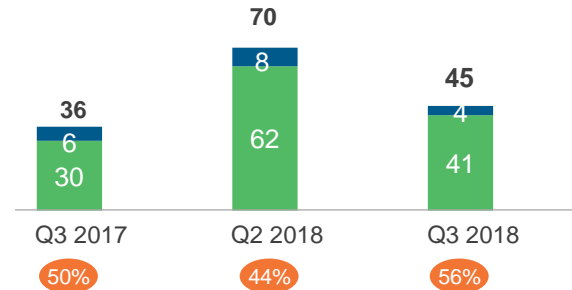
Outsourcing demand increased with a similar share of digital deals compared to the previous quarter¹
Number of outsourcing transactions



GIC activity declined significantly vis-a-vis Q2 2018

Number of new GIC setups and expansions

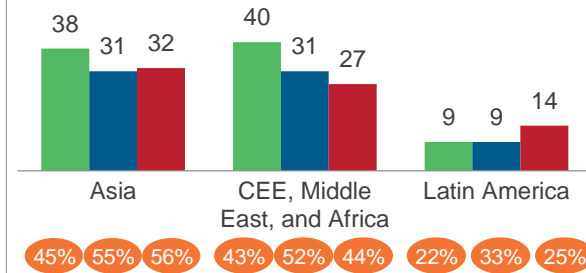
■ New setups
■ Expansions



Location dynamics

Location activity dominated by APAC, slight decline in CEE and Middle East compared to Q2 2018
Number of delivery center setups

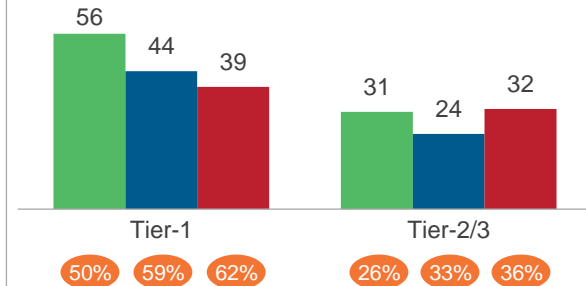
■ Q2 2018 ■ Q3 2018 ■ Last four quarters' average



Share of tier-1 locations was significantly higher compared to tier-2 locations in overall setups

Number of delivery center setups

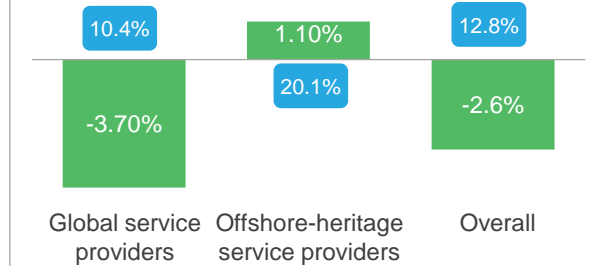
■ Q2 2018 ■ Q3 2018 ■ Last four quarters' average



● Share of digital-focused activity ● Operating margin

Service provider developments and trends

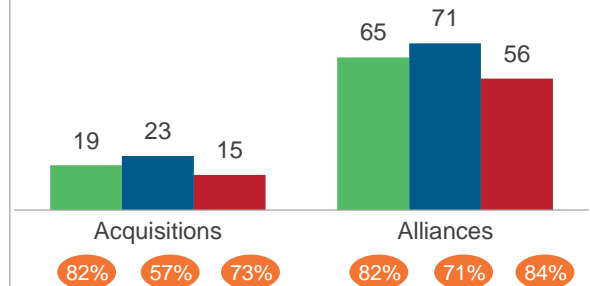
Revenue for both offshore-heritage and global providers increased in Q3 2018
QOQ growth in revenue



Both acquisitions and alliance activity increased during the quarter

Number of acquisitions and alliances

■ Q3 2017 ■ Q2 2018 ■ Q3 2018



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 Q3 2018 (page 1 of 2)

Transaction activity witnessed an increase with 509 deals in Q3 2018, compared to 489 in Q2 2018

- The overall outsourcing demand was greater. Higher growth in ITO deals was seen, compared to Q2 2018
- The government vertical saw the maximum increase in volume of transactions, followed by retail & CPG
- Outsourcing activity across North America and Rest of the World increased notably over the previous quarter
- The volume of new contracts increased significantly, compared to the previous quarter
- Volume of short-term (three to five years) and medium-term contracts (five to seven years) witnessed an increase, compared to the previous quarter
- Application development and helpdesk services witnessed an increase in adoption over the previous quarter

GIC market activity decreased significantly in Q3 2018, with 41 new setups, four expansions, and no divestiture

- New GIC set-up activity decreased compared to the previous quarter, due to low activity in Europe and Latin America
- Leading companies, such as Accuron MedTech, Acronis, Allegro MicroSystems, Baidu, Bayer, BlackRock, Cerner, Continental, Ericsson, Ernst & Young (EY), Fanatics, Ford Motor, General Electric, Lufthansa,, Roche, Samsung, TCL Corporation, Tesla Motors, and Valeo, announced new centers
- In Q3 2018, onshore locations reported 29 new setups and one expansion, compared to 44 new setups and three expansions in Q2 2018. Leading companies, Abiomed, Air Liquide, Amazon, Boeing, Chanel, Daimler AG, GEICO, Ideagen, Jumio , Kobie, LivePerson, Sierra Wireless, and Voith, announced new centers

Summary of key developments in Q3 2018 (page 2 of 2)

There were 71 center setups in Q3 2018 driven by Asia Pacific, Europe and Middle East & Africa saw slight decline; Share of tier-1 locations was significantly higher compared to tier-2 locations in overall setups

- There were 71 new delivery centers set up across GICs and service providers in Q3 2018. Activity was led by both GICs and service provider setups. Tier-1 locations saw a significantly higher activity than tier-2 locations
- Key location risk/opportunity trends for Q3 2018 include – Baltic States are witnessing increasing IT activity in the last few years led by Lithuania; Mexico will improve its attractiveness as an attractive nearshore location for IT-BP service delivery for U.S.-based organizations with a new renegotiated agreement; Risk assessment and attractiveness of business environment in Latin America

Most service providers reported sequential growth in revenue

- There was an increase in the operating margin for both global as well as offshore-heritage service providers
- The overall transaction activity witnessed an increase as compared to the previous quarter; while the share of Market Vista™ Index service providers decreased marginally in Q3 2018 as compared to the previous quarter
- Overall M&A activity decreased significantly due to a decline in acquisitions from global service providers. Similarly, the alliance activity also decreased substantially as compared to the previous quarter
- Overall location activity for leading service providers decreased, compared to the previous quarter, due to low activity from both global and offshore-heritage service providers

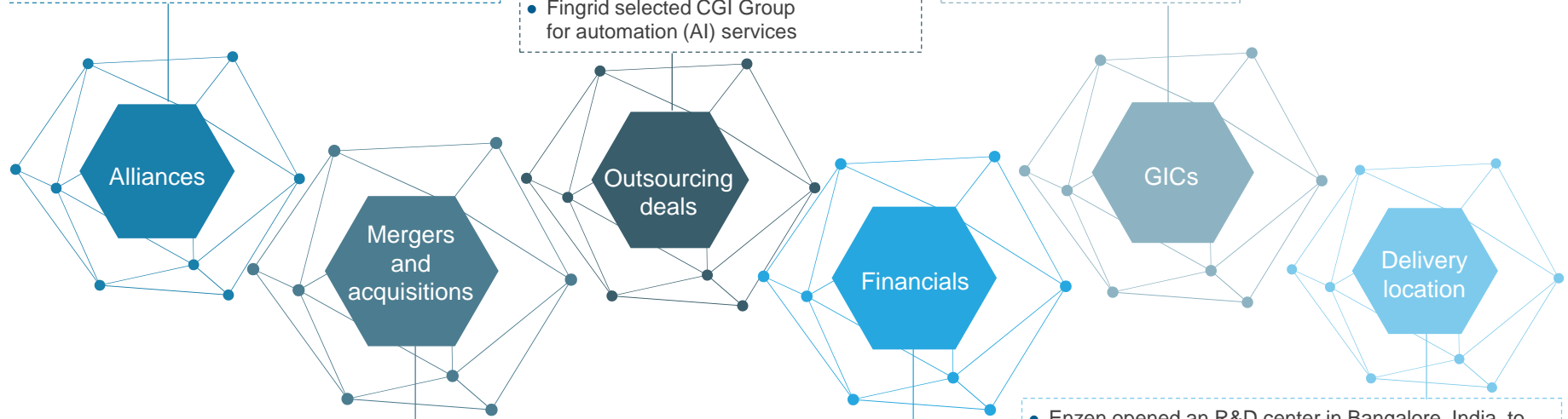
Key developments in the digital space – Q3 2018

Digital-focused activity

- Accenture collaborated with Merck and AWS to launch a cloud-based informatics research platform for the life sciences industry to help improve productivity, efficiency, and innovation in the early stages of drug development
- IBM partnered with Galp to develop an advisory tool based on AI to enhance seismic interpretation within the exploration and development activities

- General Services Administration (U.S.) selected NTT Data for cloud, cybersecurity, and mobility services
- Alight Solutions selected Wipro for automation (AI) and analytics services
- Department of Homeland Security (U.S.) selected ManTech International for cybersecurity services
- Fingrid selected CGI Group for automation (AI) services

Enterprises such as Acronis, BlackRock, Convivus, DNV GL, Enzen, Ericsson, Freshworks, Homag group, Ocado technology, Ruckus Wireless, TCL Corporation, and Veeam opened GICs performing digital functions



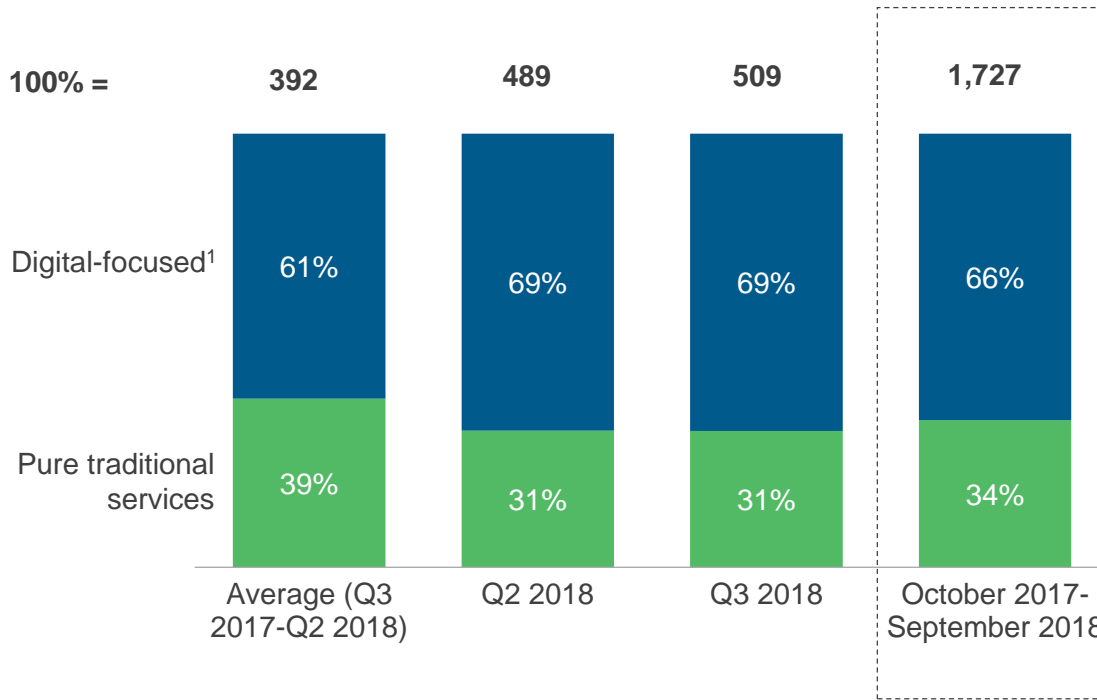
- Leading providers such as Accenture, Atos, Cognizant, and Tech Mahindra continued to expand their digital capability through acquisitions
- During the quarter, Atos entered into an agreement to acquire Syntel to expand Atos' digital solutions portfolio and business, particularly in North America, and strengthen its banking, finance, and insurance verticals

- DXC's digital revenue increased by 21.6% for FY 2018
- Infosys' digital revenue reported a sequential growth of 8% and constituted ~29% of the total revenue (US\$2.83 billion) in Q2 2018
- TCS' digital revenue accounted for 18.9% (~US\$940 million), a sequential increase of ~6%

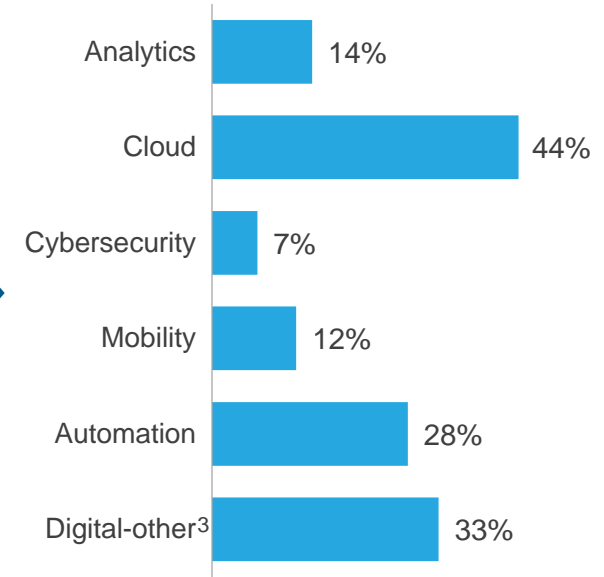
- Enzen opened an R&D center in Bangalore, India, to develop products and solutions within the areas of electric vehicles, energy storage, and water resource management technologies leveraging IoT, AI, robotics, and augmented & virtual reality
- Accenture opened an innovation center in Medellin, Colombia to develop AI, analytics, and RPA solutions
- NIIT Technologies established a CoE in Bangalore, India for digital services. The center will focus on emerging cognitive business process technologies such as AI, blockchain, and IoT

Digital services continued to dominate the outsourcing activity, driven by cloud-based deals

Outsourcing market activity
Number of outsourcing transactions



Distribution by digital components
Number of outsourcing transactions²



The share of digital-focused transactions and pure traditional services remained similar to the previous quarter with that being 69% and 31%, respectively

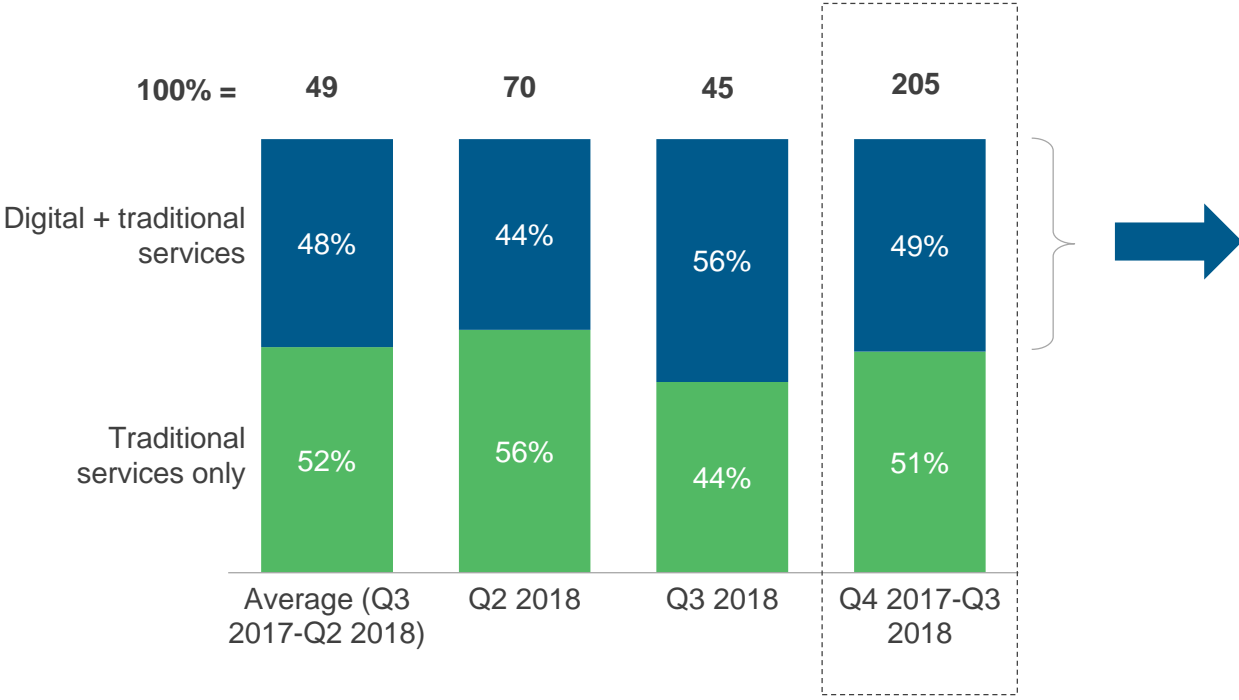
¹ Includes centers that provide digital as well as traditional services

² Includes alliances which have multiple digital components

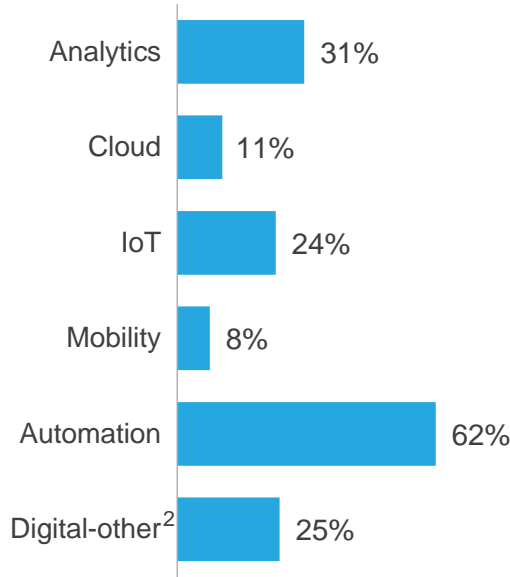
³ Others include digital components such as social media, Internet of Things (IoT), digital interactive, consulting, and blockchain

Digital services in GIC setups increased 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

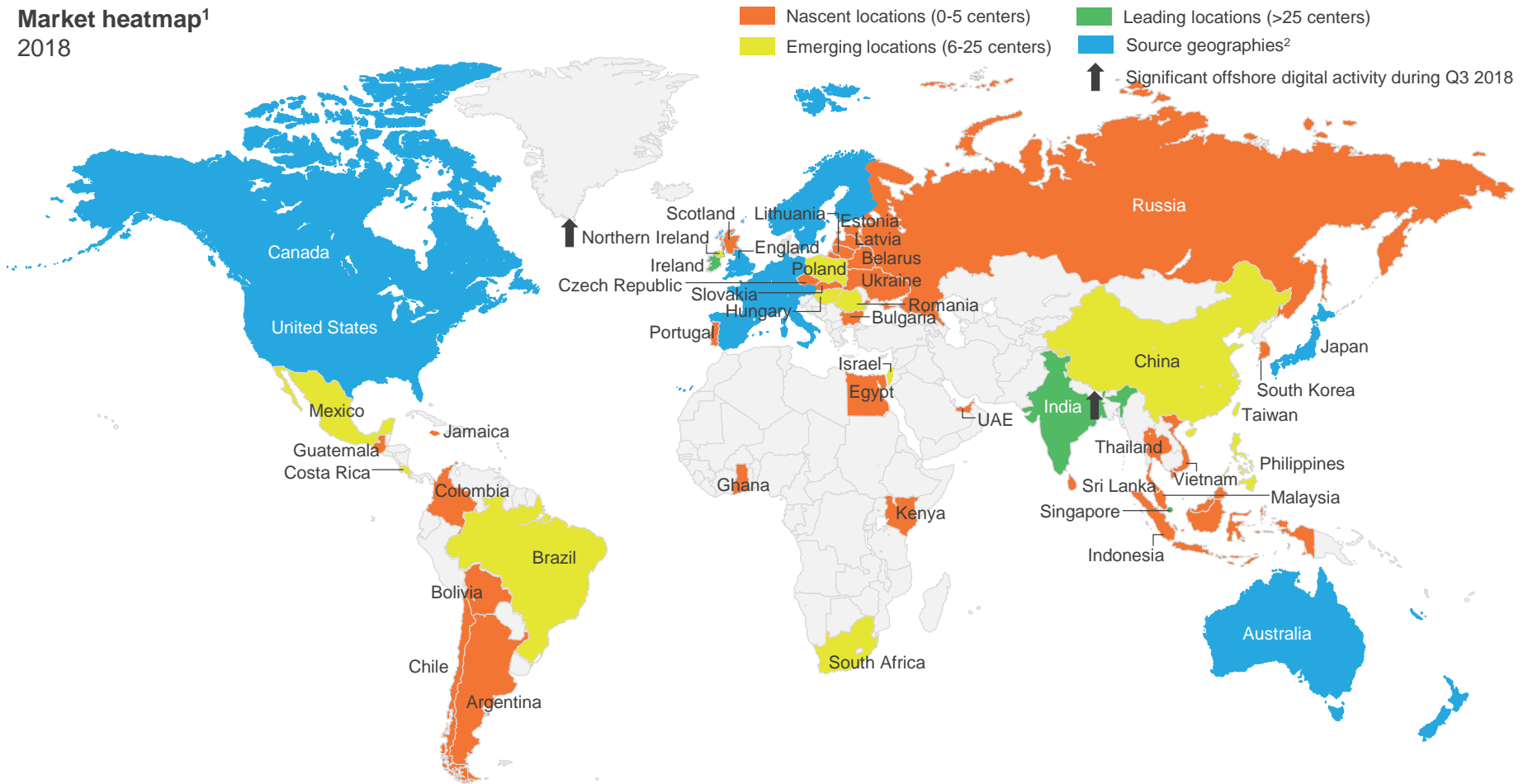


Enterprises are increasingly leveraging disruptive technologies such as AI and ML to build strategic R&D and digital agenda, drive innovation, and focus on value-added services

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

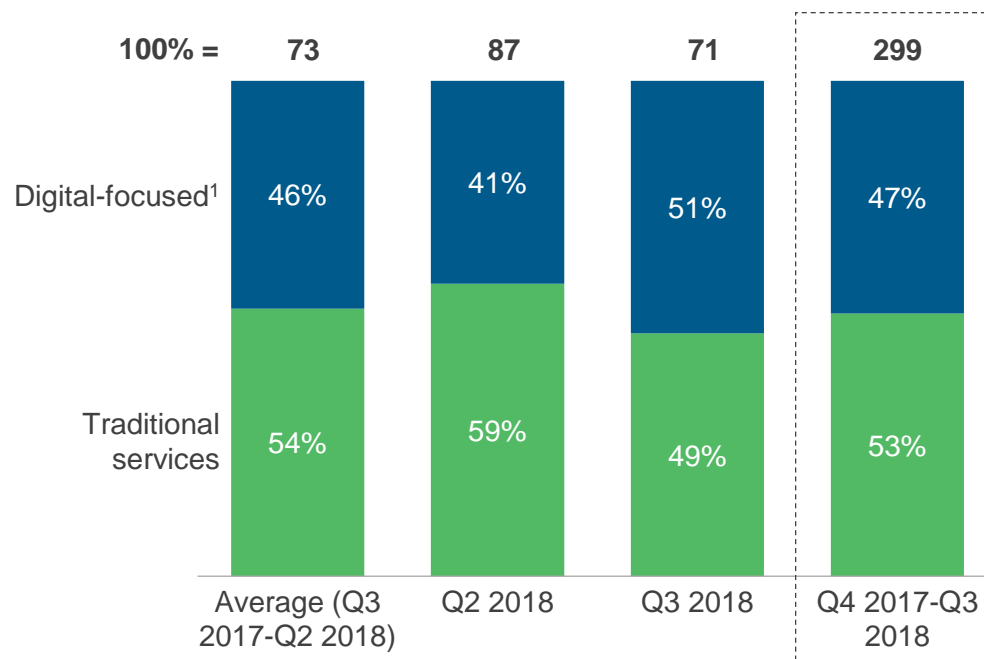
2 Indicates the high-cost locations typically offshoring/nearshoring information technology and business process services to other low-cost locations

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

Digital services activity saw an increase in share in Q3 2018 compared to the previous quarter, with automation and analytics being the key areas of investment

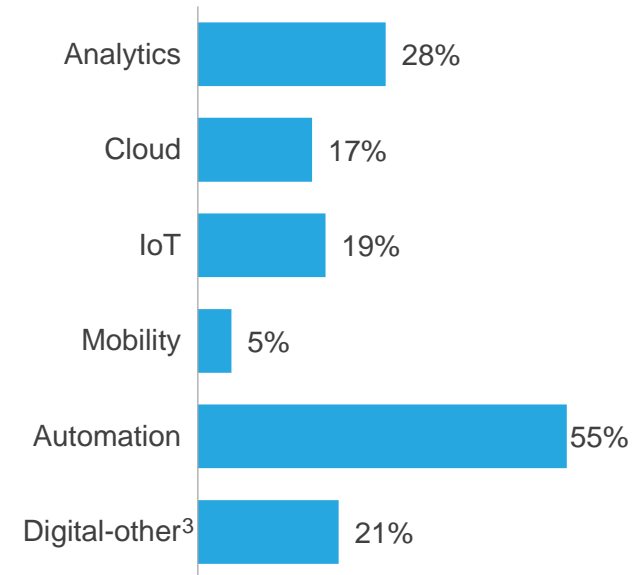
Locations activity

Number of service delivery centers set up



Distribution by digital components

Number of service delivery centers set up²



- In Q3 2018, there was an increase 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 was driven by India, Northern Ireland, and Bulgaria. 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
- Q3 2018 also saw a return to the majority of activity revolving around digital components, after witnessing a similar high in Q1 2018

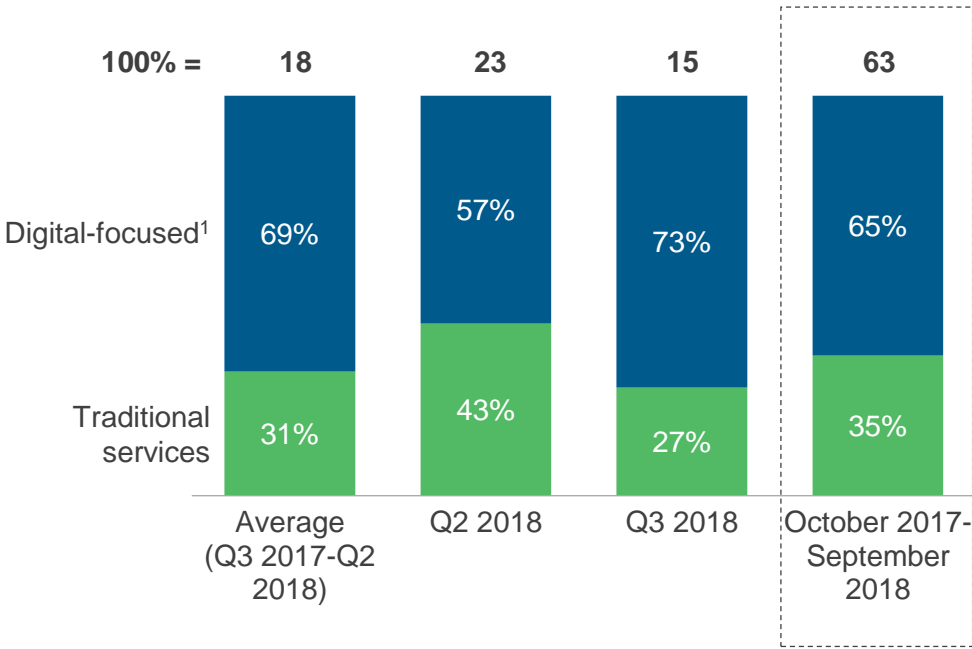
¹ Includes centers that provide digital as well as traditional services

² Includes alliances which have multiple digital components

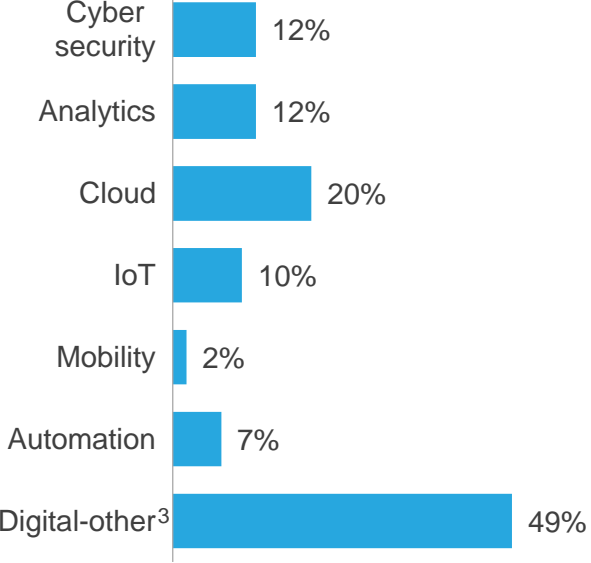
³ Others include digital components such as social, cybersecurity, and blockchain

Cloud continued to be the leading 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

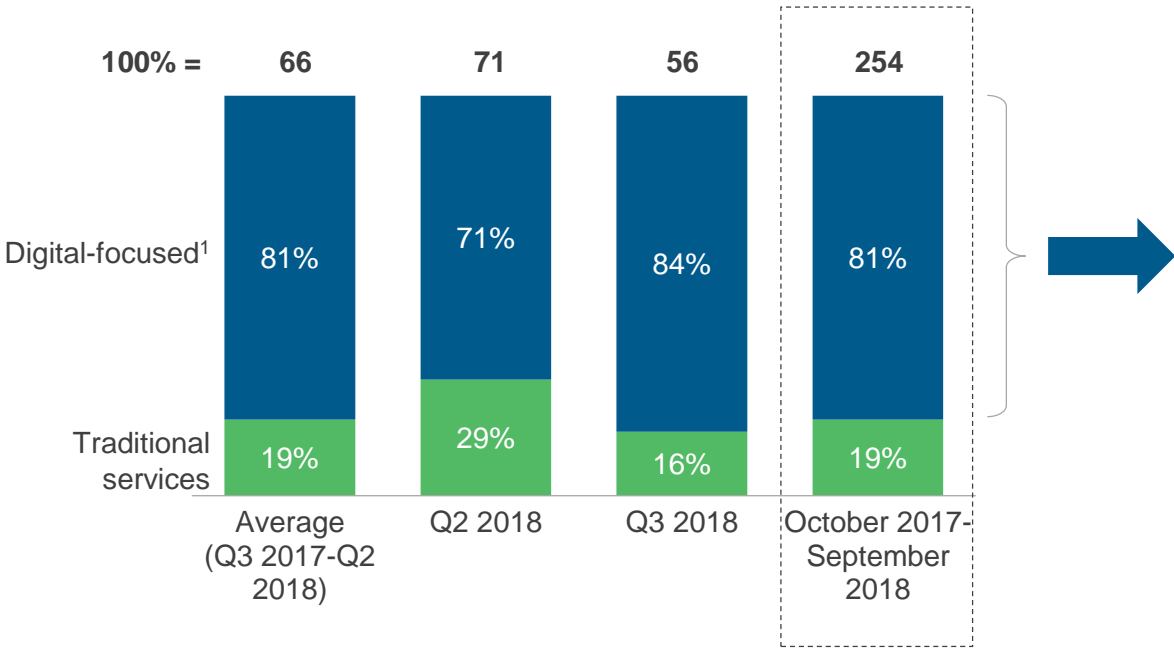


Digital-focused acquisitions continue to dominate the service provider acquisition landscape. Cloud, cybersecurity, and analytics are among the top focus areas for service providers within digital-focused acquisitions.

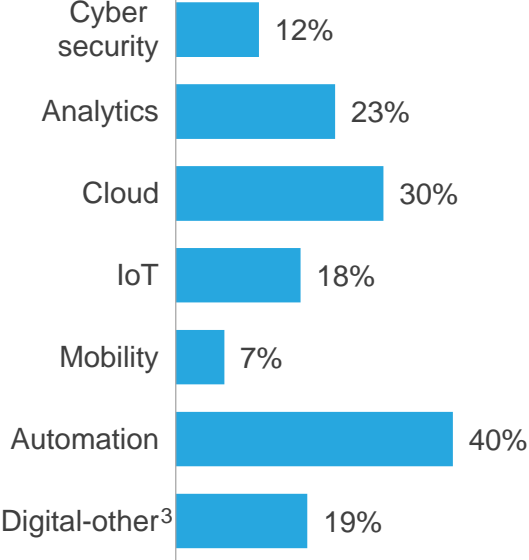
1 Includes centers that provide digital as well as traditional services
 2 Includes alliances which have multiple digital components
 3 Others include digital components such as social, cybersecurity, and blockchain

Automation and cloud 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. Automation, cloud, and analytics dominated the service provider alliance landscape during Q3 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 Convergys acquired by Concentrix

3 DXC Technology was created through the merger of CSC and enterprise services business of Hewlett Packard Enterprise (HPE)

4 Report covers only the services division of Fujitsu that is referred to as Fujitsu Services

5 Report covers the services division of IBM that is referred to as IBM Global Services (IBM GS)

6 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™ Q3 2018** ([EGR-2018-35-R-2749](#)); 2018. This report summarizes the key trends and developments for Q2 2018 in the global offshoring and outsourcing market
2. **Market Vista™: Industry Insights – Insurance** ([EGR-2018-35-R-2764](#)); 2018. The Global Sourcing Adoption Trends reports are new additions to our flagship Market Vista™ offering. These are unique reports that cover enterprise-specific view of global sourcing adoption and maturity, specific to key sectors.. The report reflects benchmarks and trends specific to all the leading North America- and Europe-based insurance majors as well as leading service providers in this sector. This report will be useful for Insurance firms, their GICs, as well as service providers as part of their ongoing initiatives to assess sector-specific benchmarks and insights
3. **Global Services Market Pressing Issues: Service Providers' Perspective** ([EGR-2018-35-R-2776](#)); 2018. The Pressing Issues of Global Services Market reports are new additions to our flagship Market Vista offering. These are unique reports based on surveys that capture the pulse of the market from the service providers' perspective. This document is the first in our series and is focused on service providers. The report highlights market sentiments and the outlook for rest of the year and into 2019
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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