



Market Vista™ : Select Findings Q1 2019

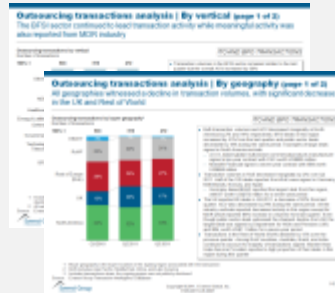
Data and Analysis – October-December 2018

Market Vista | Overview

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

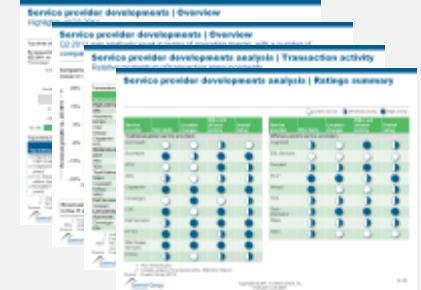
Overall sourcing market

- 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



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 Q1 2019



Uptick in outsourcing activity led by BFSI sector; tax reforms in U.S. and overall good financial performance resulted in higher discretionary spend. Themes such as design, customer experience, automation, and cloud were prominent in Q4 2018

Substantial growth in Global In-house Centers (GIC) adoption by small enterprises focusing on specific services rather than multi-functional centers

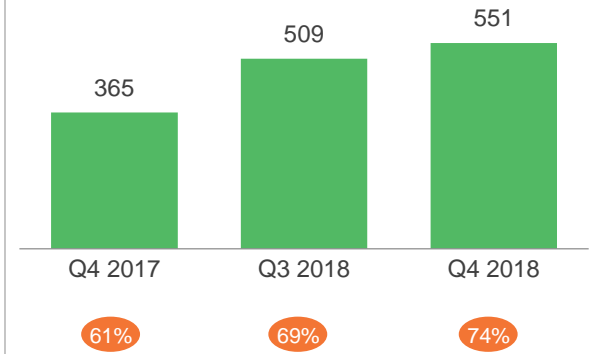
Significant rise in R&D center setups by manufacturing enterprises in Asia Pacific region, given preference to insource next-generation engineering services

Service providers focusing on acquisition of startups (as opposed to partnerships) to build niche capabilities. As many as 70% acquisitions were startups in Q4, compared to 50% in Q3 2018

Global services dashboard: Q4 2018

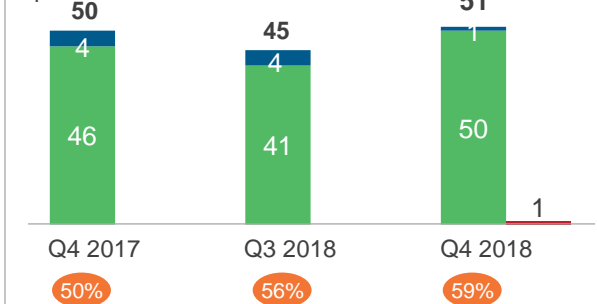
Outsourcing/offshoring market overview

Outsourcing demand increased with an increase in share of digital deals compared to the previous quarter¹
Number of outsourcing transactions



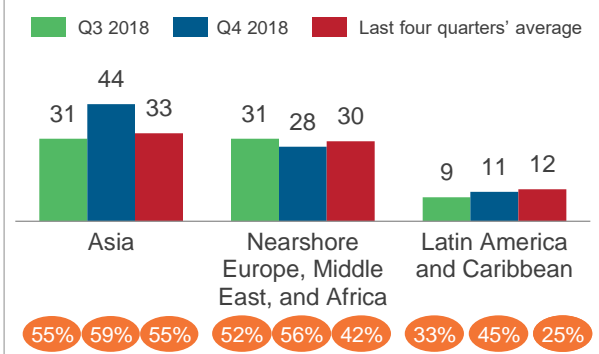
GIC activity increased vis-a-vis Q3 2018

Number of new GIC setups and expansions



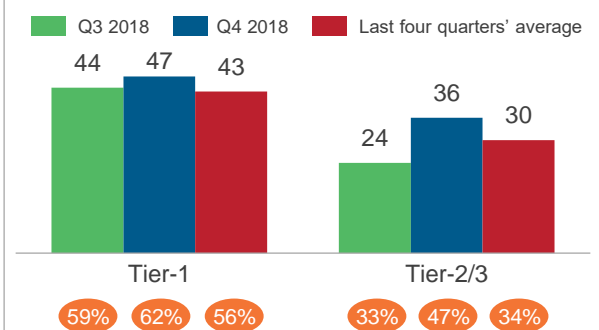
Location dynamics

Location activity was dominated by APAC, slight increase in Latin America compared to Q3 2018
Number of delivery center setups



Share of tier-1 locations was significantly higher compared to tier-2/3 locations in overall setups

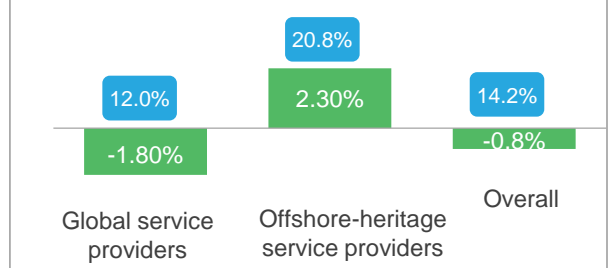
Number of delivery center setups



● Share of digital-focused activity ● Operating margin

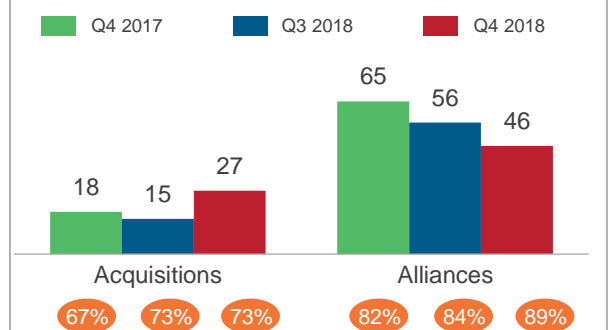
Service provider developments and trends

The consolidated revenue for both offshore-heritage and global providers increased in Q4 2018
QOQ growth in revenue



While acquisition activity increased significantly, alliances declined substantially

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 Q4 2018 (page 1 of 2)

Transaction activity witnessed an increase with 551 deals in Q4 2018, compared to 509 in Q3 2018¹

- The overall outsourcing demand was greater. Higher growth in BPO deals was seen, compared to Q3 2018
- The BFSI vertical saw the maximum increase in volume of transactions, followed by energy & utilities
- Outsourcing activity across Rest of Europe (ROE) increased notably over the previous quarter
- The volume of new contracts increased significantly, compared to the previous quarter
- Volume of very short-term (zero to three years) and long-term contracts (more than seven years) witnessed a significant increase, compared to the previous quarter
- Network and industry-specific services witnessed a significant increase in adoption over the previous quarter

GIC market activity increased in Q4 2018, with 50 new setups, one expansion, and one divestiture

- New GIC set-up activity increased significantly compared to the previous quarter, due to high activity in India
- Leading companies, such as ABB Group, Amazon, Blackrock, Boeing, Deutsche Bank, Ericsson, Ernst & Young (EY), Intel, KPMG, Nissan, OPPO, Standard Chartered, Syngenta, UBS, Verint, Visteon, and Volkswagen, announced new centers
- In Q4 2018, onshore locations reported 20 new setups and three expansions, compared to 29 new setups and one expansion in Q3 2018. Leading companies, such as Airbnb, Commerzbank, Dyson, General Motors, John Lewis Partnership, Lockheed Martin, and Wayfair, announced new centers

Summary of key developments in Q4 2018 (page 2 of 2)

There were 83 center setups in Q4 2018 driven by Asia Pacific; Latin America & the Caribbean saw slight increase; share of tier-1 locations was significantly higher compared to tier-2/3 locations in overall setups

- There were 83 new delivery centers set up across GICs and service providers in Q4 2018. Activity was led by both GICs and service provider setups. Tier-1 locations saw a significantly higher activity than tier-2/3 locations
- Key location risk/opportunity trends for Q4 2018 include – South Africa announced a new GBS incentive scheme to improve the country's value proposition; Lithuania attracting a multitude of players looking to innovate and deliver FinTech services; Increasing competition from service providers for engineering services sourcing; Significant investment from the Canadian government likely to boost attractiveness of British Columbia for digital services delivery

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 a significant increase as compared to the previous quarter; however, the share of Market Vista™ Index service providers decreased in Q4 2018 as compared to the previous quarter
- Overall M&A activity increased significantly due to an increase in acquisitions from global service providers. However, alliance activity decreased substantially as compared to the previous quarter
- Overall location activity for Market Vista™ Index service providers remained similar, to the previous quarter. Location activity for global service providers increased significantly, while it declined substantially for offshore-heritage service providers

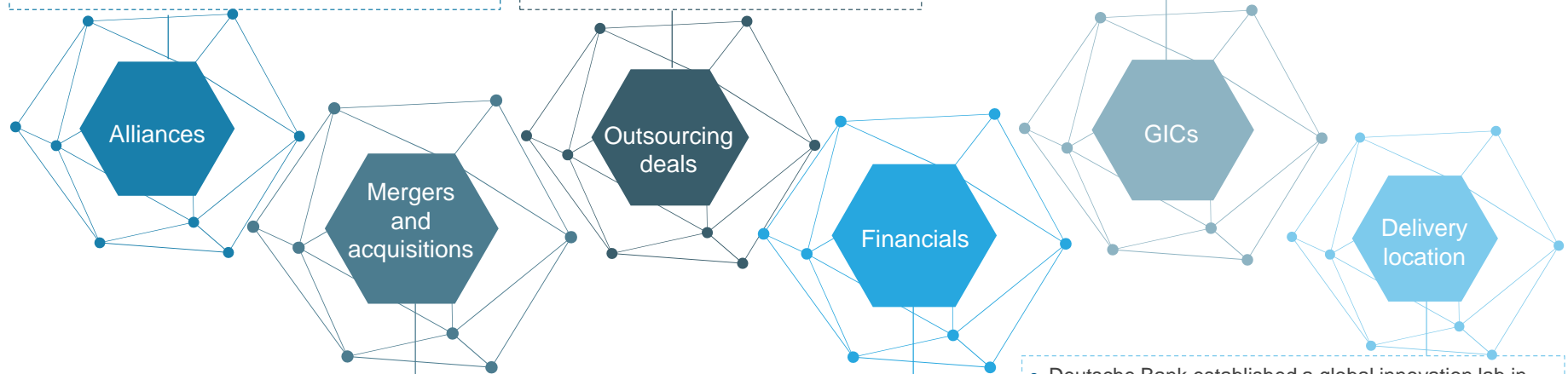
Key developments in the digital space – Q4 2018

Digital-focused activity

- Accenture collaborated with Adobe to co-develop solutions for designing personalized digital customer experiences at scale, create new industry best practices for streamlining workflows between creative and marketing teams, and leverage AI to scale content production
- CGI Group partnered with Scotia Bank to use robotic automation to capture, identify, and classify documents as part of the CGI Trade360 transaction flow

- Virginia Information Technology Services (U.S.) selected Unisys for cloud and cybersecurity services
- Sund & Bælt selected NNIT for automation (AI), cloud, and analytics services
- Abreu Carga selected BlueJay Solutions for cloud and mobility services
- Lenovo selected IBM for automation (AI) services

Enterprises such as Citrix Systems, Deutsche Bank, Ericsson, Ernst & Young (EY), Forcepoint, Grab, Intel, JD.com, Jones Lang LaSalle, Nissan, Oppo, Standard Chartered, Syngenta, ThyssenKrupp, and Volkswagen opened GICs to perform digital functions



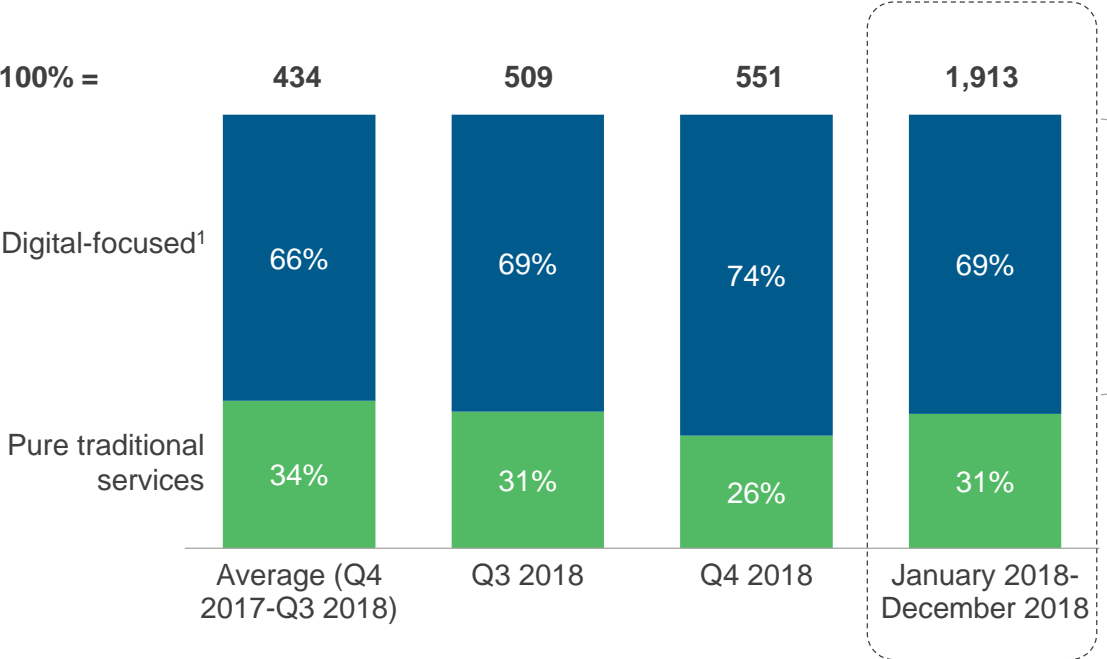
- Leading providers such as Accenture, Capgemini, IBM, TCS, and Wipro continued to expand their digital capability through acquisitions
- During the quarter, IBM acquired Red Hat to strengthen its cloud capabilities and help clients create cloud-native business applications faster, drive portability and security of data, and provide applications across multiple public and private cloud

- DXC's digital revenue increased by 6.4% for FY 2018
- Infosys' digital revenue reported a sequential growth of 13.5% and constituted ~31% of the total revenue (US\$2.92 billion) in Q3 2018
- TCS' digital revenue accounted for 28.1% (~US\$1,465 million), a sequential increase of ~16%

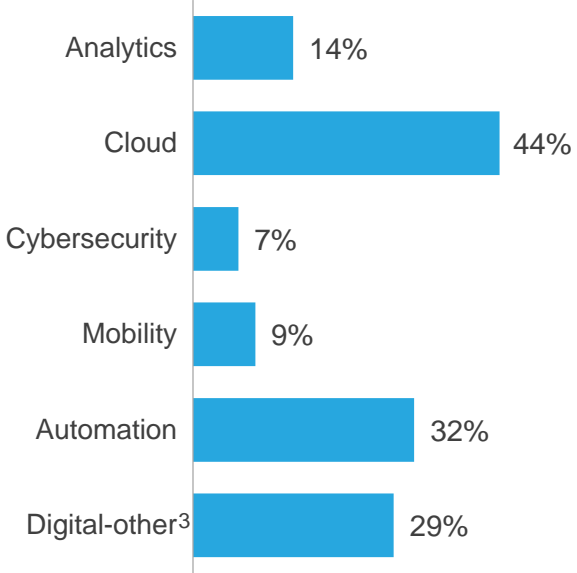
- Deutsche Bank established a global innovation lab in Singapore to develop financial products & technologies by using AI, blockchain, cloud, and big data capabilities
- Wipro opened a new office that houses a commerce cloud digital CoE, a delivery center, and an innovation hub. The company will hire locally for delivery roles such as functional consultants, technical leads, and integration architects
- Infopulse opened a delivery center in Warsaw, Poland, to focus on delivering digital transformation and telecom services for its EU clients

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



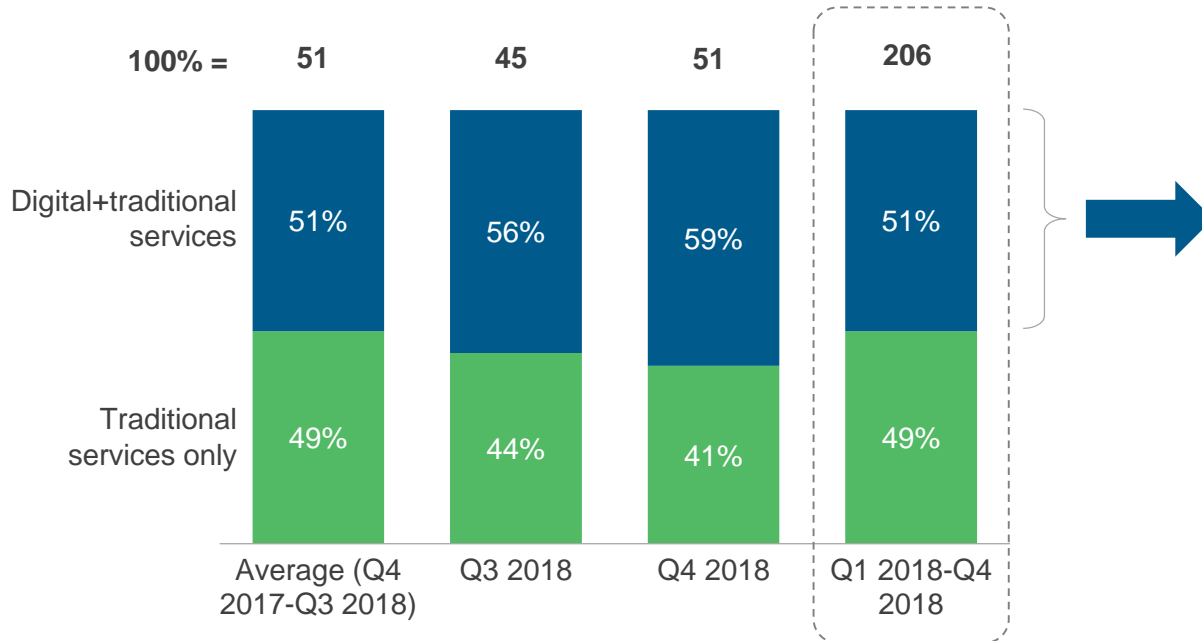
The share of digital-focused transactions witnessed an increase as compared to the previous quarter

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 media, Internet of Things (IoT), digital interactive, consulting, and blockchain

Increased leverage of GICs for digital services delivery as compared to previous quarters

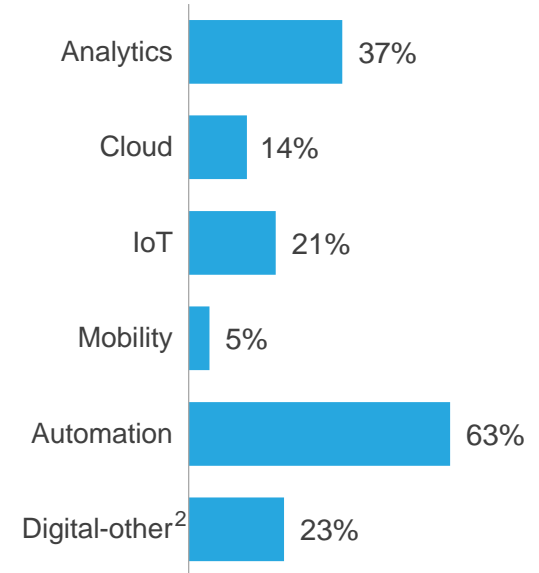
Offshore GIC market activity

Number of GIC setups and expansions



Distribution by digital components

Number of GIC setups and expansions¹



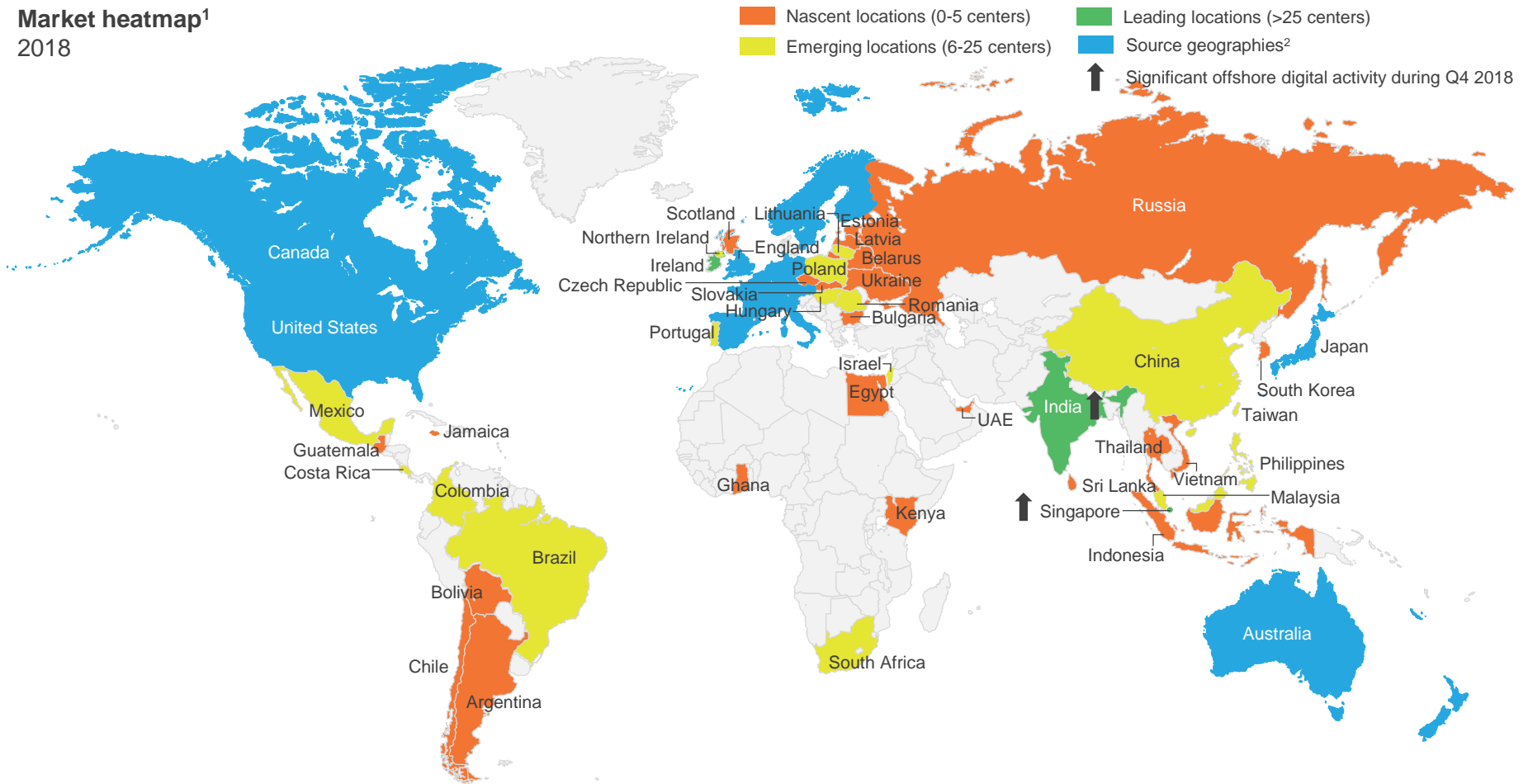
Automation continued to account for the maximum share of the total digital-based GIC setups during Q4 2018. Enterprises are exploring options to improve efficiency, deliver business value, and reduce cost beyond traditional means by leveraging AI and ML

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 the number of center setups by service providers and GICs

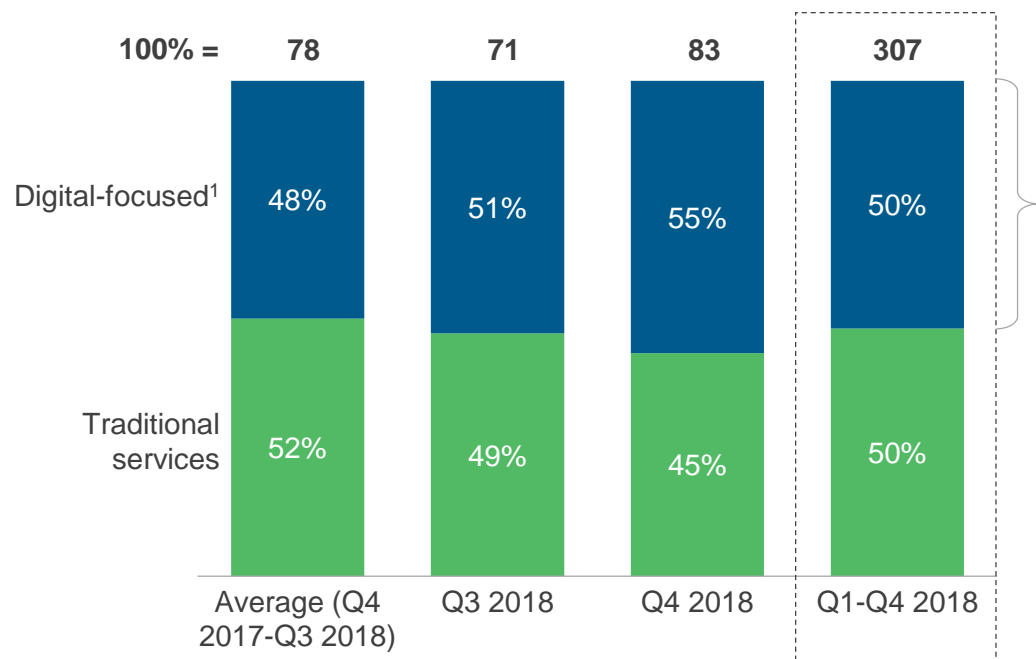
2 Indicates the high-cost locations typically offshoring/nearshoring information technology and business process services to other low-cost locations

Source: Country-/city-level investment promotion agencies, global services organizations, and Everest Group (2019)

Digital services activity continued an upward trend in Q4 2018 compared to the previous quarter; automation and analytics remain the key areas of investment

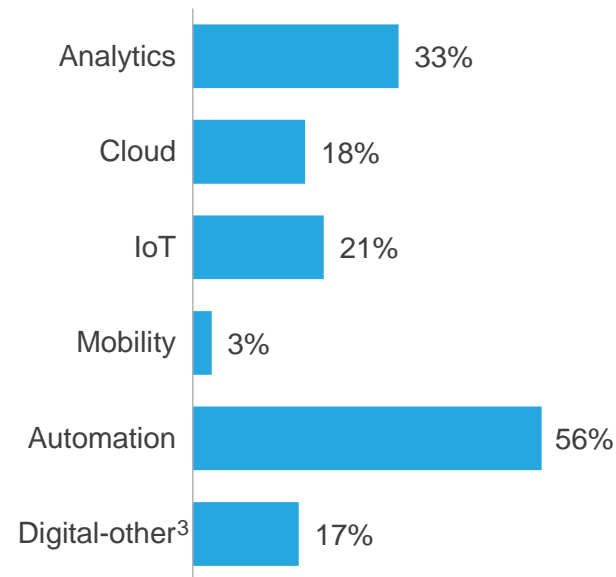
Locations activity

Number of service delivery centers set up



Distribution by digital components

Number of service delivery centers set up²



- In Q4 2018, there was a continuation in the trend of higher digital-focused centers compared to centers with only traditional services; there was also 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 and Singapore. 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

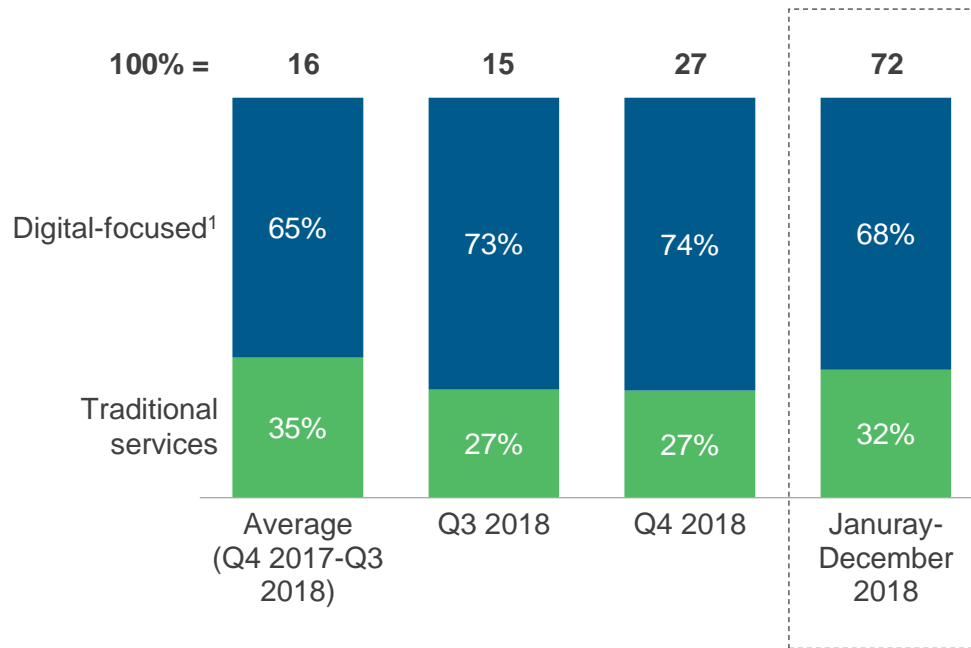
¹ Includes centers that provide digital as well as traditional services

² Includes new centers which have multiple digital components

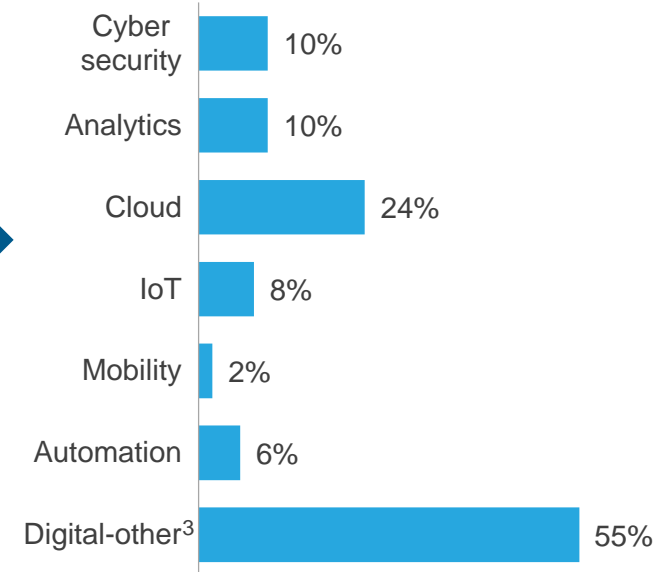
³ Others include digital components such as social, cybersecurity, and blockchain

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

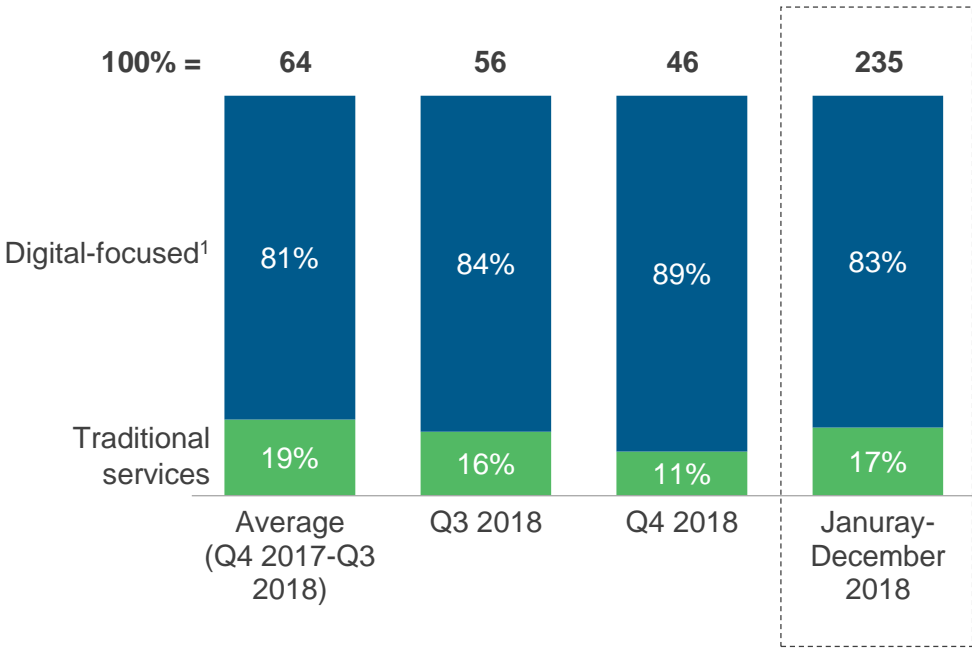


Digital-focused acquisitions remained on similar lines as compared to the previous quarter. Cloud, cybersecurity, and analytics are among the top focus areas for service providers within digital-focused acquisitions

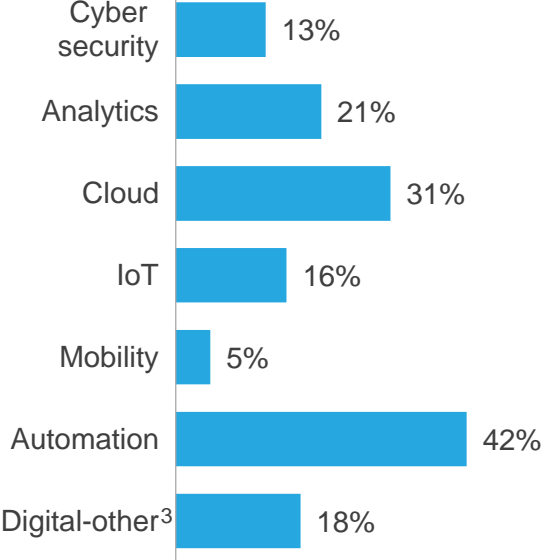
1 Includes acquisitions which have multiple digital components
2 Others include digital components such as social and blockchain

Automation continued to be the top digital component 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 Q4 2018

¹ Includes alliances which have multiple digital components
² Others include digital components such as social 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 was acquired by Concentrix

3 DXC Technology was created through the merger of CSC and the 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™ Q4 2018** ([EGR-2018-35-R-2853](#)); 2018. This report summarizes the key trends and developments for Q3 2018 in the global offshoring and outsourcing market
2. **Market Vista™: Industry Insights – Banking (Retail and Commercial)** ([EGR-2018-35-R-2889](#)); 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 banking majors as well as leading service providers in this sector. This report will be useful for banking 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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