



Market Vista™ : Select Findings Q2 2019

Data and Analysis – January-March 2019

Market Vista | Overview

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

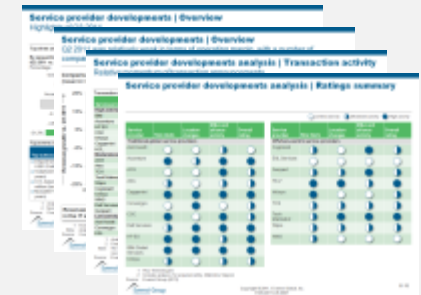
Overall sourcing market

- 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

Key changes in Market Vista™ reports



Changes introduced in Market Vista™ Q2 2019 report



Inclusions in previous iterations

1

Addition of five pure-play engineering service providers (Akka, Alten, Altran, AVL, and Bertrandt). Changes are reflected in the service provider development section for financials, M&A, and locations analysis

Coverage included 25 service providers

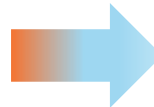


Coverage now includes 30 service providers

2

Expanded scope of engineering services (R&D)

Engineering services included software services



Engineering services expanded to include software, embedded, and mechanical services

3

Expanded coverage of GICs with detailed analysis of onshore shared services centers

Onshore GICs / shared services centers were captured in the excel deliverable



Detailed analysis of onshore GICs/ shared services centers in the main (PDF) report

Global services | Key market trends in Q1 2019



Large financial services firms, especially banks, are increasingly looking to expand their in-house IT teams and insource parts of their outsourced IT services portfolios

United Kingdom witnessed a significant decline in the outsourcing activity, primarily due to decline in contracts signed by BFSI enterprises in anticipation of Brexit

Increased activity in Western Europe driven by higher engineering-focused GICs in Germany by manufacturing firms and increased IT-focused service provider delivery centers in the Netherlands given availability of skilled & multi-lingual talent pool and developed digital infrastructure

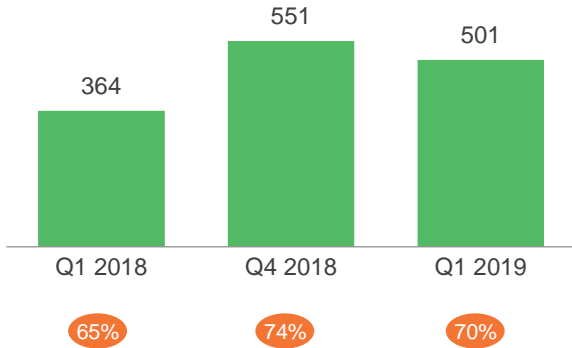
Indian-heritage service providers increased product-focused investment, mainly driven by next-generation technologies and competition from global majors. For example, Genpact acquired riskCanvas to access its suite of Anti-Money Laundering (AML) solutions and Tech Mahindra partnered with Rakuten Mobile Network to open a next-generation (4G and 5G) software-defined network lab

Global services dashboard: Q1 2019

Outsourcing/offshoring market overview

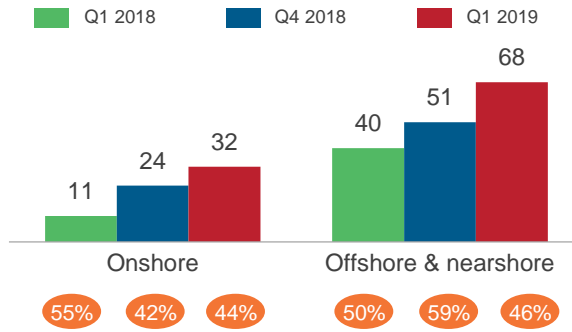
Outsourcing demand decreased with a decrease in share of digital deals compared to the previous quarter¹

Number of outsourcing transactions



GIC activity increased vis-a-vis Q4 2018

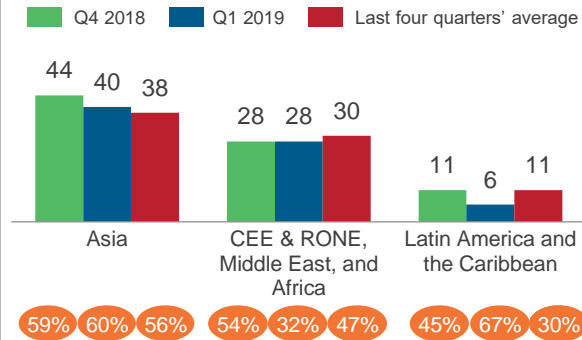
Number of new GIC setups and expansions²



Offshore/nearshore location dynamics

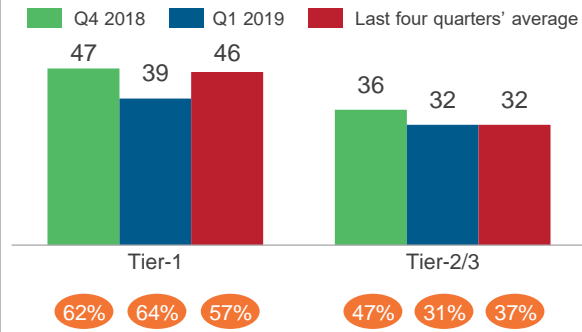
Location activity was dominated by Asia, decline in Latin America and the Caribbean compared to Q4 2018

Number of delivery center setups



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

Number of delivery center setups

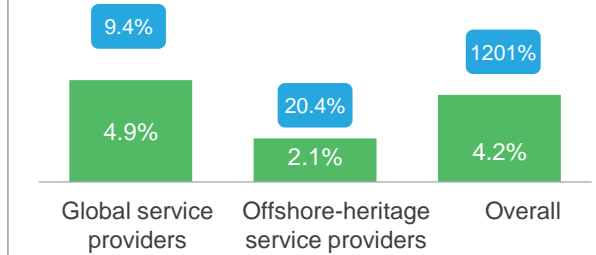


● Share of digital-focused activity ● Operating margin

Service provider developments and trends

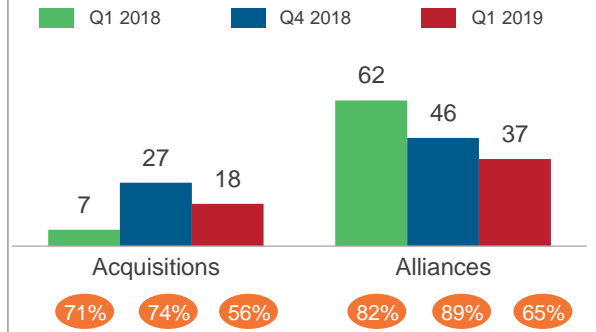
The consolidated revenue for both offshore-heritage and global providers increased in Q4 2018

QOQ growth in revenue



Both acquisition and alliance activity decreased substantially, compared to the previous 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 Q1 2019 (page 1 of 2)

Transaction activity witnessed a decline with 501 deals in Q1 2019, compared to 551 in Q4 2018¹

- The overall outsourcing demand was lower on account of decreased ITO and BPO deals, compared to Q4 2018
- The technology & communication vertical saw the maximum increase in volume of transactions, followed by retail & CPG
- Outsourcing activity across North America witnessed a notable decrease over the previous quarter
- The share of renewals / restructured deals increased slightly, compared to the previous quarter
- Volume of short-term (three to five years) and medium-term contracts (five to seven years) witnessed a significant increase, compared to the previous quarter
- Systems integration and procurement services witnessed an increase in adoption over the previous quarter

In Q1 2019, GIC market activity in offshore/nearshore locations increased substantially to 58 new setups, 10 expansions, and no divestiture

- New GIC set-up activity increased substantially compared to the previous quarter, due to greater traction in offshore Asia Pacific region
- Leading companies, such as Agilent Technologies, AirAsia, Airbus, Allianz, Bosch, Cisco, Continental, Grab, Honeywell International, Huawei, Microsoft Corporation, ON Semiconductor, Salesforce, and WeBank, announced new centers

During the quarter, GIC market activity in onshore locations grew significantly to 30 new setups, two expansions, and no divestiture

- New GIC set-up activity increased substantially compared to the previous quarter, owing to greater traction in the North American region
- Leading companies, such as Airbus Group, CEVA, Cisco, LG Electronics, Lockheed Martin, Microsoft Corporation, Nova Bus, Nvidia, and SenseTime, announced new centers

Summary of key developments in Q1 2019 (page 2 of 2)

There were 74 new offshore/nearshore and 47 new onshore delivery center setups in Q1 2019; Offshore activity was dominated by Asia, while the activity in onshore locations was driven by North America

- There were 74 offshore/nearshore and 47 onshore centers set up across GICs and service providers in Q1 2019, the activity was largely driven by GICs. Tier-1 locations saw higher activity than tier-2/3 locations in offshore, while the reverse was witnessed in onshore locations
- Key location risk/opportunity trends for Q1 2019 include – A recent ruling by the Supreme Court in India clarifies the definition of basic wage; Increasing leverage of onshore locations for GIC / shared services center setups; Indian BPM industry will be significantly impacted unless the talent deficiency due to skill gap is proactively addressed; Jamaica as an emerging location for BPO work

Most service providers reported sequential growth in revenue

- There was an increase in the revenue for both global as well as offshore-heritage service providers
- The overall transaction activity witnessed a significant decline as compared to the previous quarter. The share of Market Vista™ Index service providers also decreased substantially in Q1 2019 as compared to the previous quarter
- Overall M&A activity decreased significantly due to decline in acquisitions from both global and offshore-heritage service providers. Alliance activity also decreased substantially as compared to the previous quarter
- Overall location activity for leading service providers decreased, compared to the previous quarter. Location activity for global service providers decreased significantly, while it declined marginally for offshore-heritage service providers

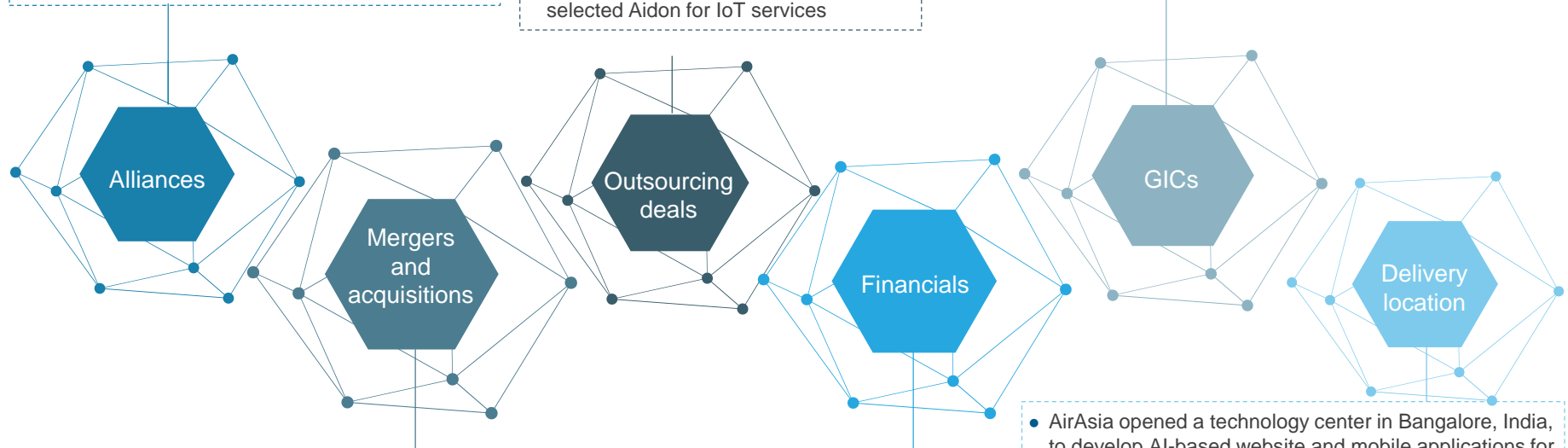
Key developments in the digital space – Q1 2019

Digital-focused activity

- Capgemini partnered with IDEMIA, a provider of security and identity solutions, to jointly develop a secure Internet of Things (IoT) device management platform that reinforces secure connectivity for a vast array of devices and data
- IBM collaborated with Vodafone to launch a new venture aimed at boosting Europe's 5G, AI, and cloud capabilities by the H1 2019

- Xerox selected HCL for automation (RPA and AI) services
- Queensland Rail (Australia) selected DXC Technology for cloud and cyber security services
- Humana selected Inovalon for analytics services
- Eskilstuna Strängnäs Energi & Miljö selected Aidon for IoT services

- Enterprises such as AirAsia, Cisco, Continental, Etisalat, Microsoft Corporation, Salesforce, Silicon Valley Bank, Singapore Airlines, WeBank, and Yitu opened GICs to perform digital functions in offshore and nearshore locations
- Enterprise such as CEVA, Cisco Systems, Denso, Lockheed Martin, Microsoft Corporation, Nvidia, Safran, and SenseTime opened GICs to deliver digital services in onshore locations



- Leading providers such as Accenture, CGI, Cognizant, DXC, HCL, Infosys, and Tech Mahindra continued to expand their digital capability through acquisitions
- During the quarter, Accenture acquired Storm Digital, a digital marketing agency, to strengthen the capabilities of Accenture Interactive programmatic services by leveraging Storm's digital marketing & media services and to expand Accenture Interactive's presence in the Dutch market

- Infosys' digital revenue reported a sequential growth of 4.1% and constituted 31.5% of the total revenue (US\$2.98 billion) in Q4 2018
- TCS' digital revenue accounted for 28.1% (~US\$1,580 million), a sequential increase of ~8%
- DXC reported double-digit YOY growth in digital revenue with a book-to-bill of 2.1x

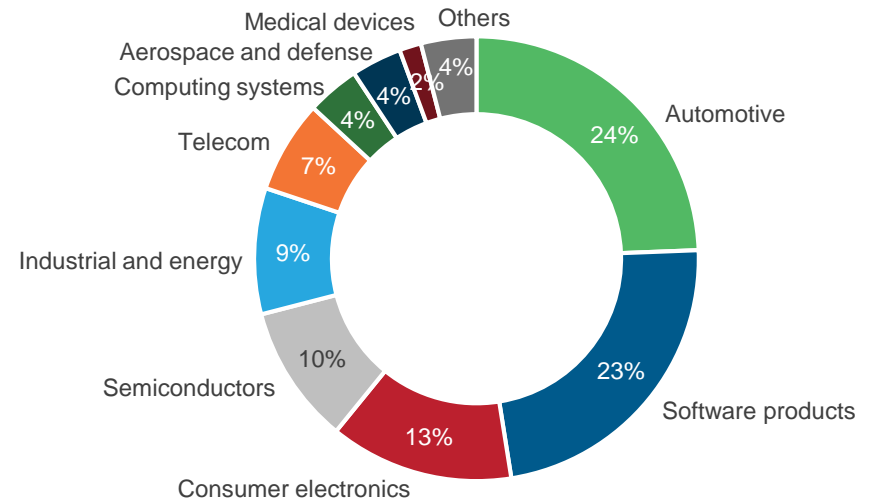
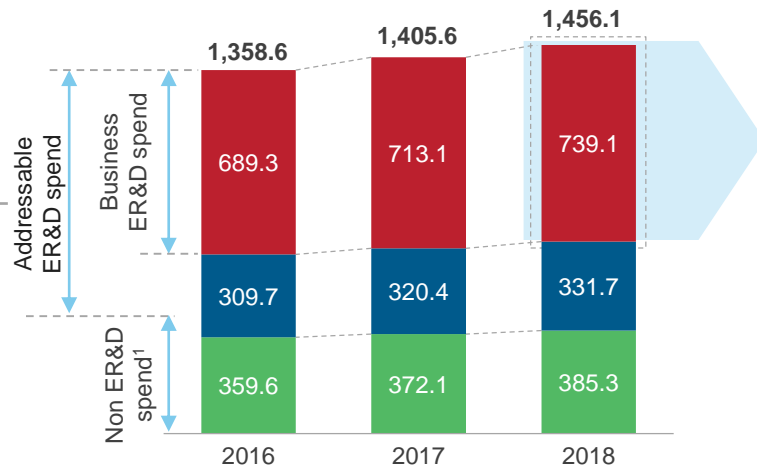
- AirAsia opened a technology center in Bangalore, India, to develop AI-based website and mobile applications for airline's digital business. The facility plans to employ 35 software engineer and technology experts
- Accenture launched an applied intelligence studio to help mining companies solve analytical problems. The studio will apply technologies such as data science and AI for real-time co-creation of digital solutions
- LG Electronics opened an R&D center in Daejeon, South Korea, to focus on developing telecom network technologies for the sixth-generation (6G) network

Enterprises' Engineering R&D (ER&D) spending stood at over US\$1 trillion in 2018

Global R&D spend 2016-2018; US\$ billion

■ Non-ER&D spend ■ Government ER&D spend ■ Business ER&D spend

Business ER&D spend across key verticals 2018, %



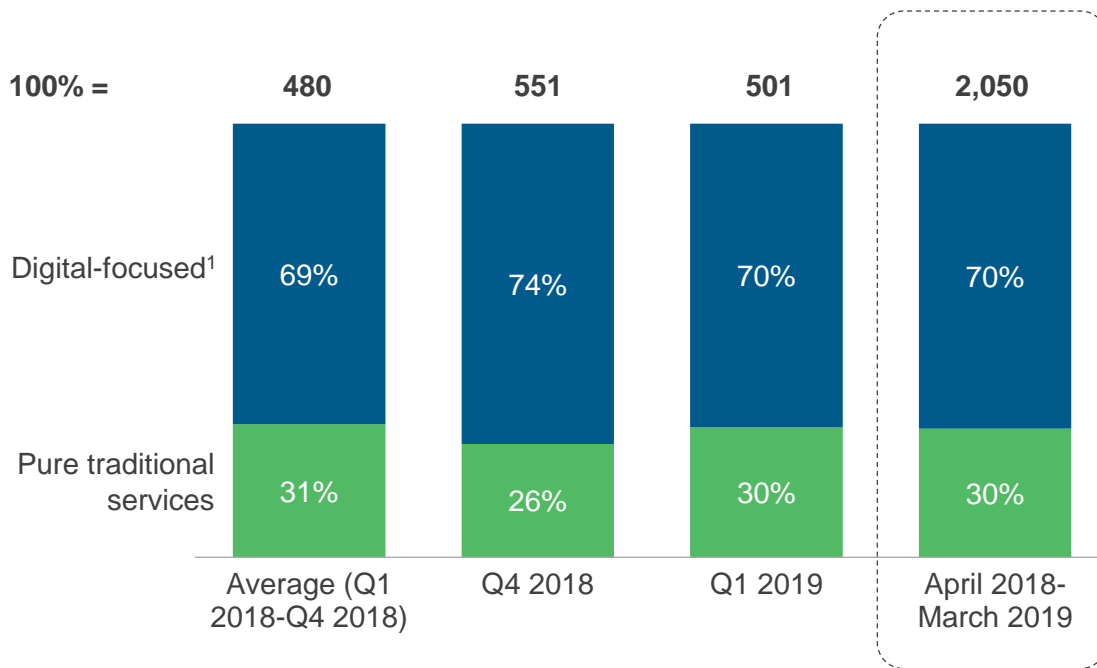
ER&D spending gaining momentum

- Global addressable ER&D spend was estimated at US\$1.07 trillion in 2018, witnessing a 3.6% growth over 2017
- Automotive and software products verticals constitute the largest shares in global business ER&D spend
- Both software products and consumer electronics verticals witnessed more than 10% growth during 2016-2018
 - Growing digitalization; technology advancements; and enterprises' need to drive cost efficiencies, improve customer experience, and reduce time-to-market are driving this growth
 - For software products, technologies such as cognitive computing, AR/VR, natural language processing, containers, microservices, and blockchain are driving ER&D spend growth, while for consumer electronics, growth is driven by next-generation user experiences, AI, and IoT

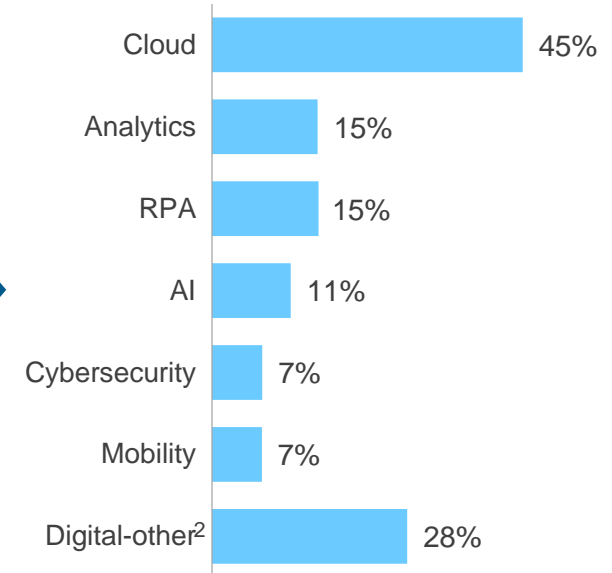
1 Non-ER&D spend: Non-addressable spend such as clinical R&D expenditure in pharmaceuticals and biotechnology & molecular development expenditure in chemicals

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 transactions¹



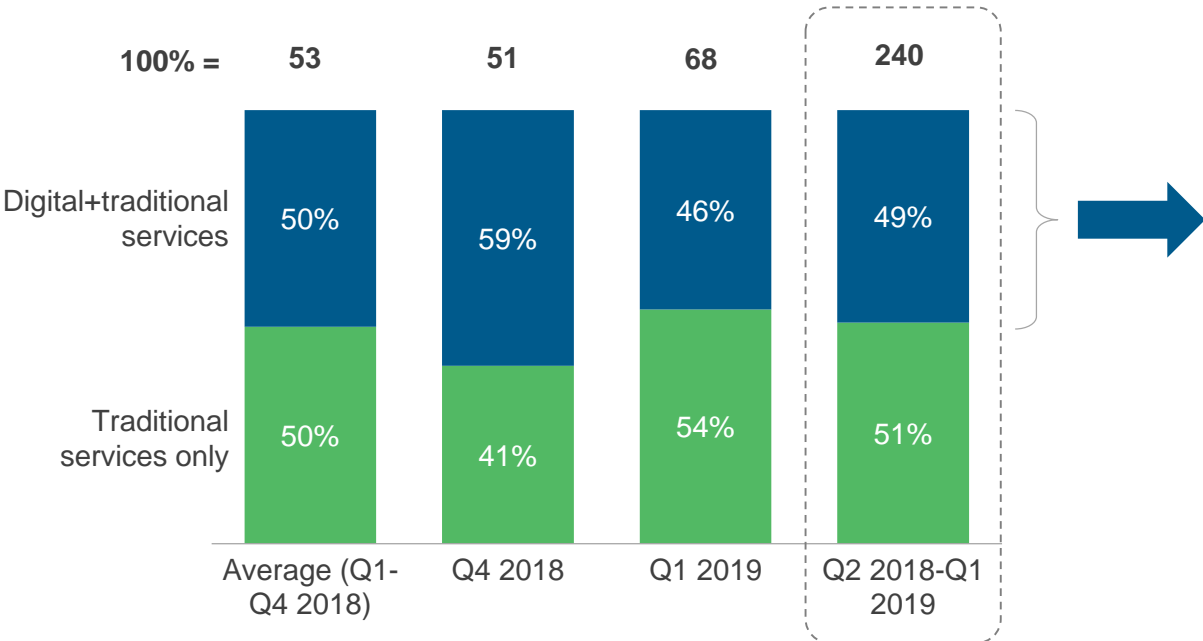
The share of digital-focused transactions witnessed a slight decrease as compared to the previous quarter

¹ Includes transactions that provide digital as well as traditional services

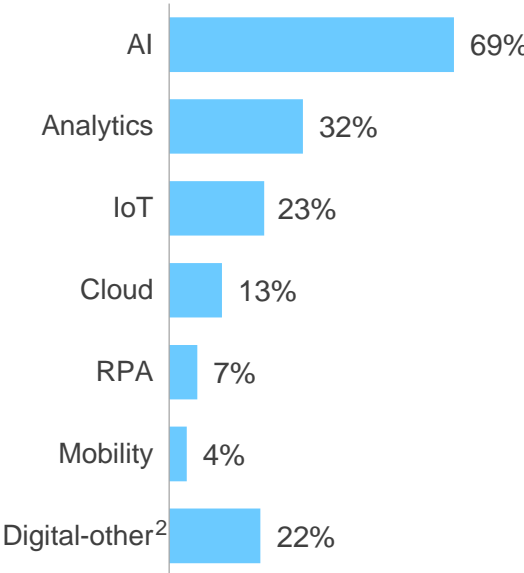
² Others include digital components such as social media, Internet of Things (IoT), digital interactive, consulting (e.g. cloud, management, strategic, etc.), and blockchain

GIC activity for digital services decreased significantly in offshore and nearshore locations, compared to the previous quarter

Offshore/nearshore GIC market activity
Number of GIC setups and expansions



Distribution by digital components
Number of GIC setups and expansions¹



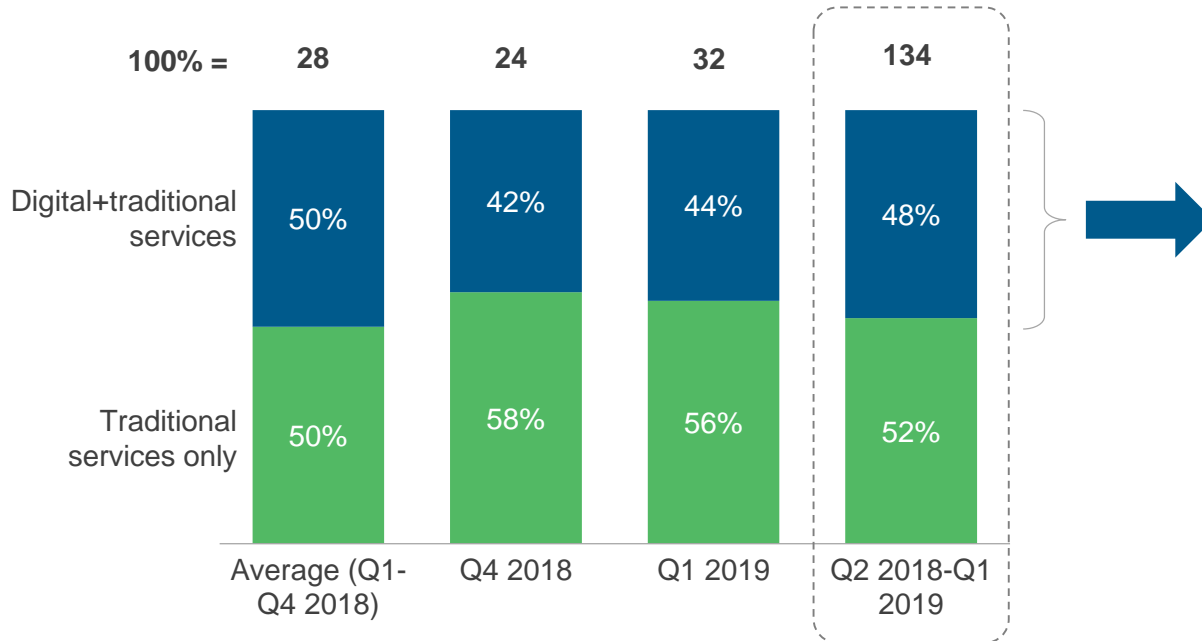
In Q1 2019, the share of digital-focused GICs in offshore locations decreased significantly from 59% in Q4 2018 to 46% in Q1 2019

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

However, digital-focused GIC setups grew in onshore locations as compared to the previous quarters

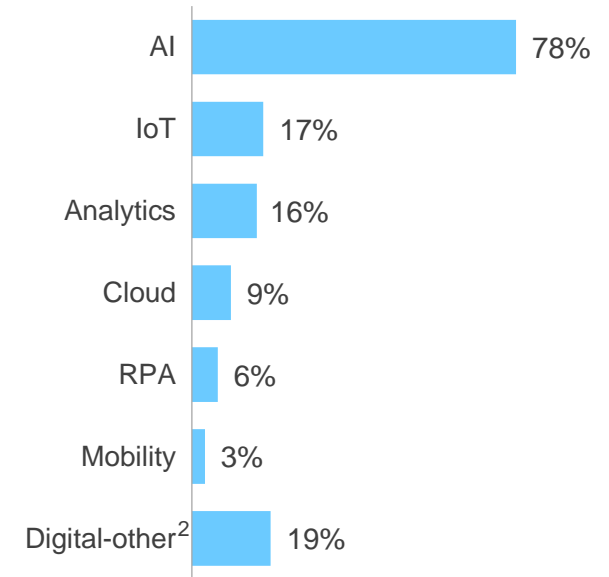
Onshore GIC market activity

Number of GIC setups and expansions



Distribution by digital components

Number of GIC setups and expansions¹



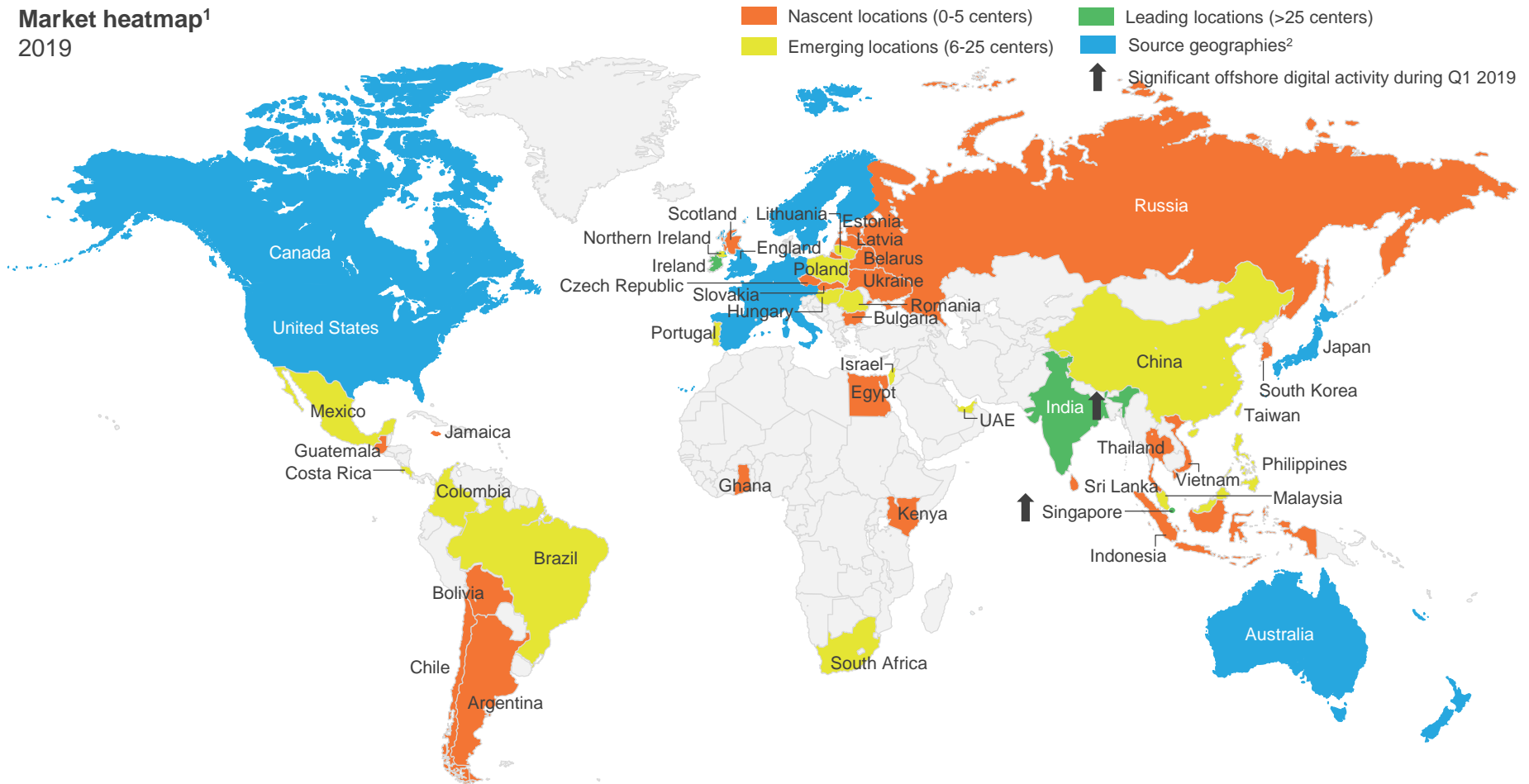
Digital services continued to dominate GIC activity in onshore locations, driven by Artificial Intelligence (AI)-based centers. The share of digital-focused GICs increased from 42% in Q4 2018 to 44% in Q1 2019 vis-à-vis the pure traditional services, which showed a slight decline in adoption over the last quarter

¹ Includes centers that have multiple digital components

² Others include digital components such as social, cybersecurity, and blockchain

Offshore/nearshore digital market activity heatmap

Market heatmap¹
2019



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

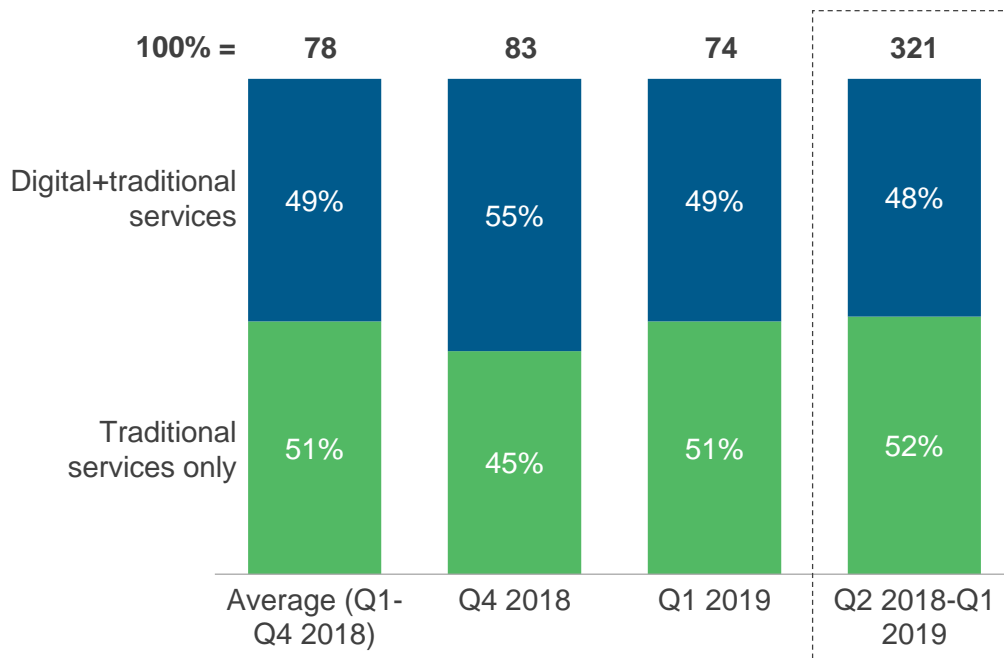
2 Indicates high-cost locations typically offshoring/nearshoring information technology and business process services to other low-cost locations

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

In offshore/nearshore locations, automation and analytics remain the key areas of investment in digital services

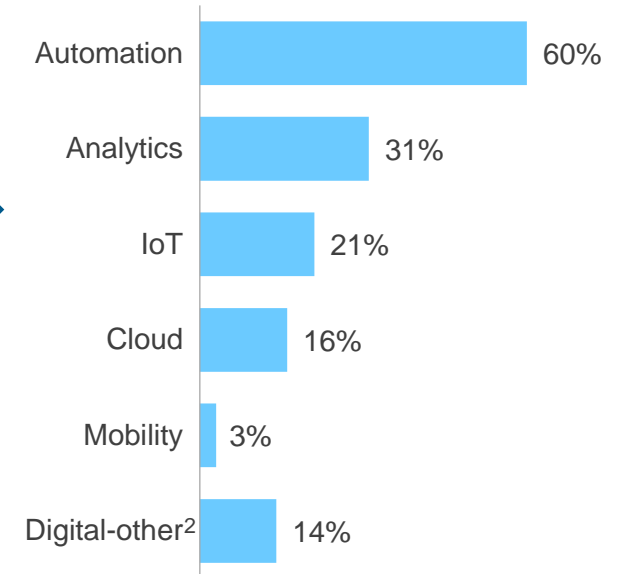
Locations activity

Number of service delivery centers set up



Distribution by digital components

Number of service delivery centers set up¹



- Q1 2019 witnessed slight decline in the share of digital-focused center setups compared to the previous quarter
- Analytics and automation continue to be the major services supported from new centers setups
- Digital services activity was driven by India and Singapore. GICs accounted for the majority of new center setups with digital activity, followed by service providers

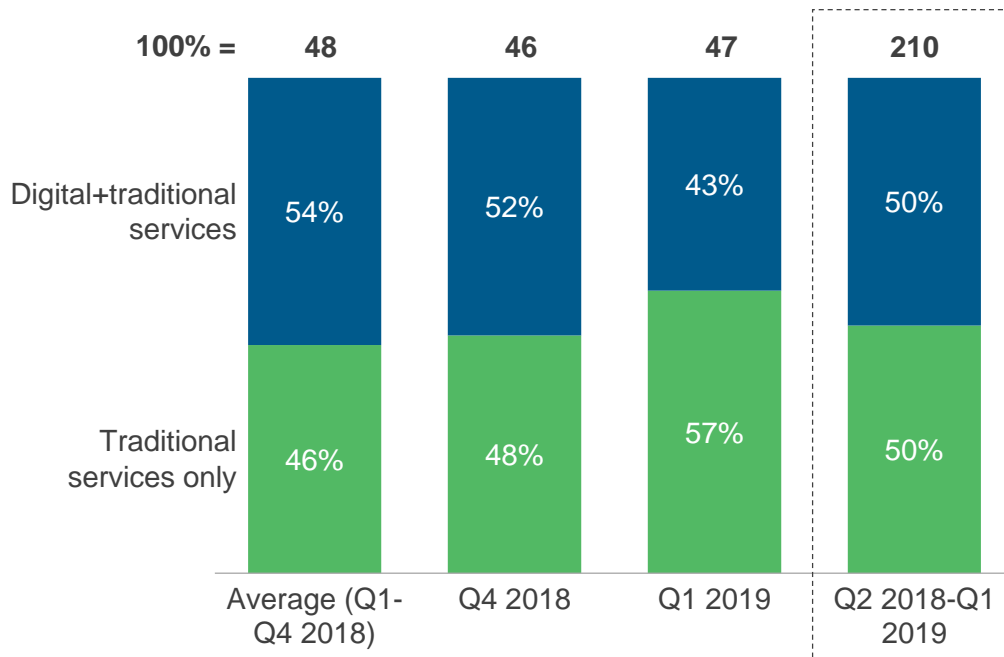
¹ Includes new centers that have multiple digital components

² Others include digital components such as social, cybersecurity, and blockchain

In onshore locations, automation drives investment within digital services

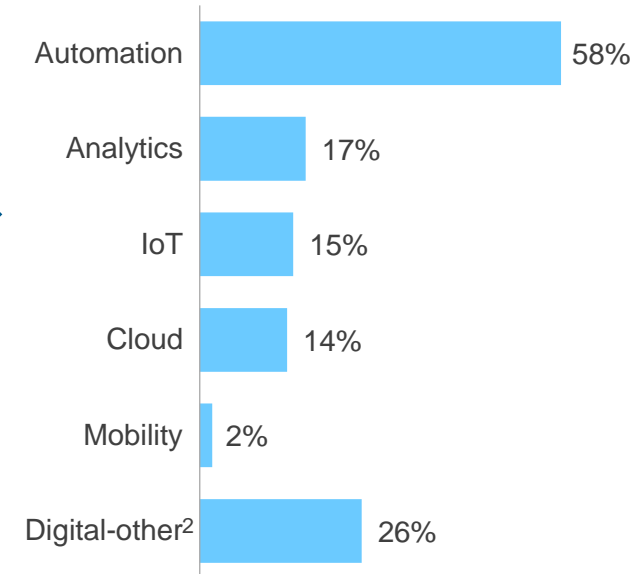
Locations activity

Number of service delivery centers set up



Distribution by digital components

Number of service delivery centers set up¹



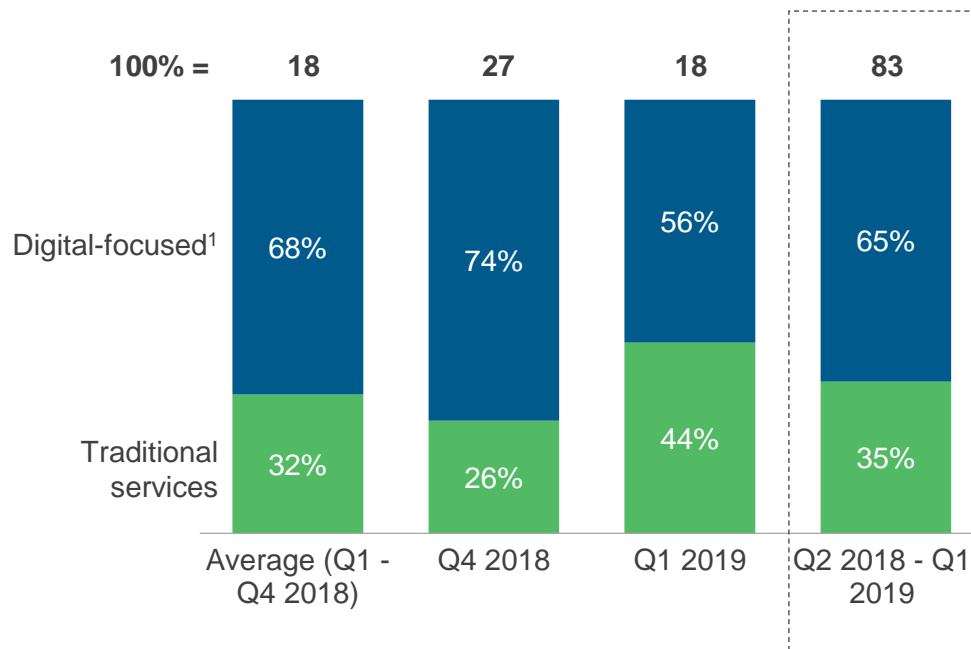
- Automation continues to be the major service supported from new centers, with increasing focus on blockchain and cybersecurity
- Digital services activity was driven by the United States. GICs accounted for the majority of center setups with digital activity, followed by MV service providers; low activity was recorded for small/medium service providers

¹ Includes new centers that have multiple digital components

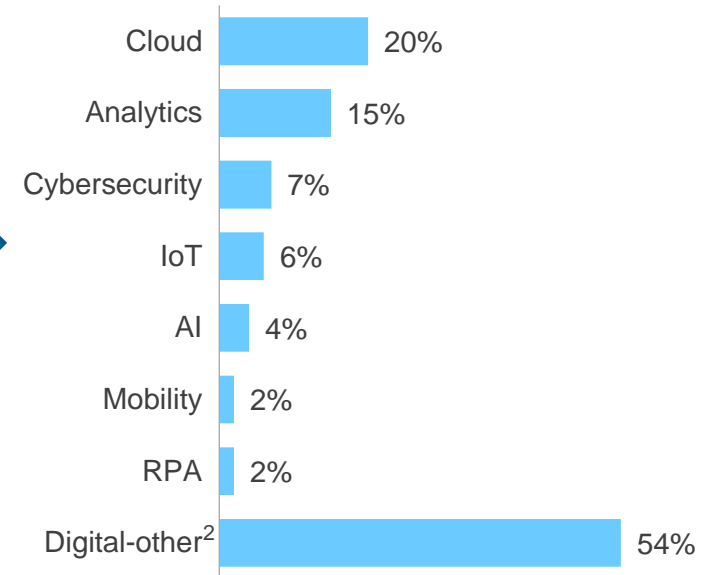
² Others include digital components such as social, cybersecurity, and blockchain

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 acquisitions



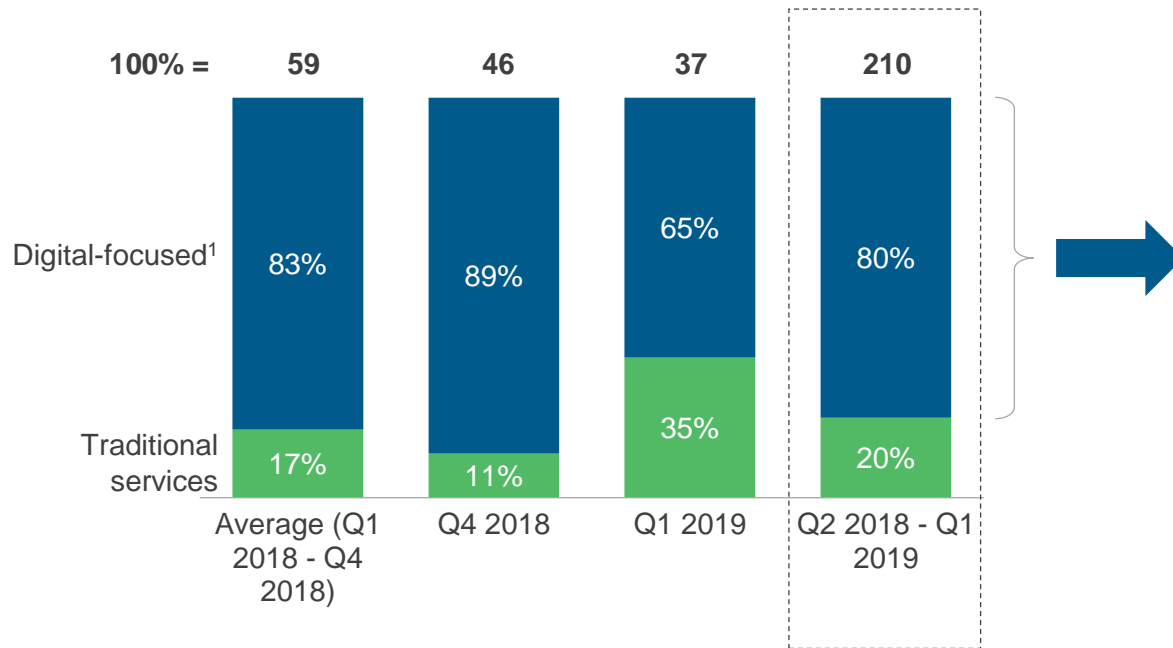
Digital-focused acquisitions decreased significantly in Q1 2019, as compared to the previous quarter. Cloud and analytics are among the top focus areas for service providers within digital-focused acquisitions

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

AI and cloud are the top digital components in alliances by service providers

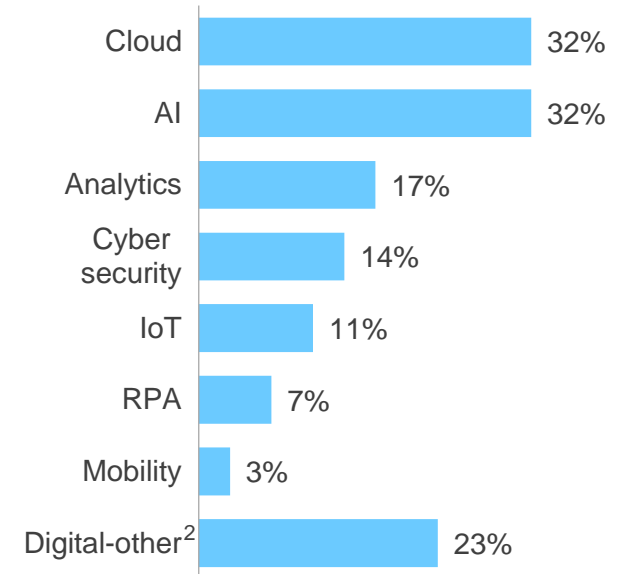
Alliances by type of service

Number of alliances



Distribution by digital components

Number of alliances



The share of digital-focused alliances decreased significantly from 89% in Q4 2018 to 65% in Q1 2019 vis-à-vis the pure traditional services, which showed an uptick in adoption over the last quarter

¹ Includes acquisitions that 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 Pure play engineering service providers

2 Xerox spun off its business services division to create Conduent

3 Convergys was acquired by Concentrix

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

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

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

7 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 2019** ([EGR-2019-35-R-3069](#)); 2019. This report summarizes the key trends and developments for Q4 2018 in the global offshoring and outsourcing market
2. **Market Vista™: 2018 Year in Review and Outlook for 2019** ([EGR-2019-35-R-3097](#)); 2019. Market Vista™: 2018 Year in Review and Outlook for 2019, gives an overview of the developments that took place in the global services industry in 2018. The report highlights key trends and drivers pertaining to GICs, offshore/nearshore locations, service providers, and outsourcing transactions. Besides providing an outlook and trends that are likely to shape up 2019, the report highlights implications for market participants as well
3. **Market Vista™: Industry Insights – Capital Markets** ([EGR-2018-35-R-3163](#)); 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 the benchmarks and trends specific to all the leading North America and Europe-based capital markets majors as well as leading service providers in this sector. This report will be useful for capital markets firms, their GICs, as well as service providers as part of ongoing initiatives to assess sector-specific benchmarks and insights
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:

H Karthik, Partner – Global Sourcing:

h.karthik@everestgrp.com

Namita Dahiya, Senior Analyst – Global Sourcing:

namita.dahiya@everestgrp.com

Shivani Mudgil, Assistant Manager – IS, Research:

shivani.mudgil@everestgrp.com

Sauban Nafees, Senior 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
+91-806-146-3500

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
+1-416-388-6765

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