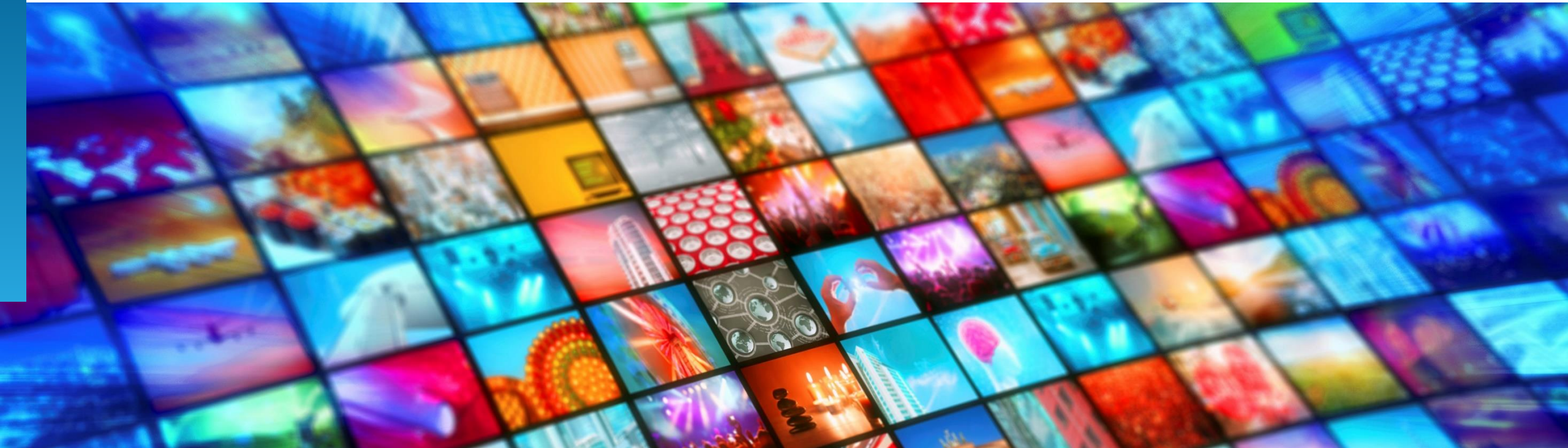


Market Vista™: Q4 2023

Data and Analysis: July – September 2023 – Select Findings



Our research offerings

This report is included in the following research program(s):

Market Vista™

- ▶ Amazon Web Services (AWS)
- ▶ Application Services
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- ▶ Asset and Wealth Management
- ▶ Banking and Financial Services Business Process
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- ▶ Locations Insider™
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- ▶ Microsoft Azure
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- ▶ Payer and Provider Business Process
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For more information on this and other research published by Everest Group, please contact us:

Hrishi Raj Agarwalla, Vice President

Shivani Mudgil, Manager

Ravneet Kaur, Senior Analyst

Vasu Kalra, Senior Information Specialist

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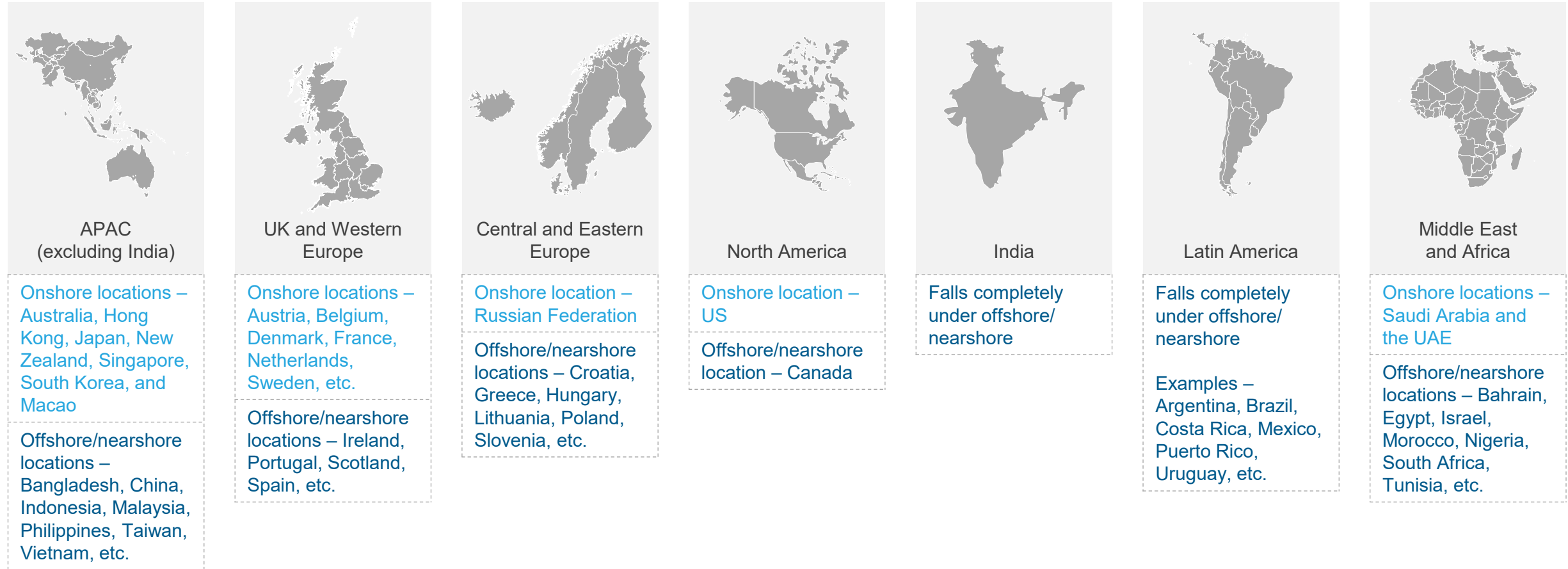
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In our Market Vista™ Q3 2023 report, we have updated shoring and regions classification to reflect latest market trends

Onshore Offshore



Global services | key market trends in Q3 2023



AI-based transactions registered 68% YoY growth in Q3 2023. The growth was fueled by generative AI-based contracts as both service providers and enterprises were actively exploring new use cases, mainly focused on enhancing operational efficiency.

In Q3 2023, there was a surge in IT infrastructure contracts compared to Q2 2023, driven by the growing competitiveness in the cloud market and the rapid deployment of new workloads in AI and analytics.

Providers' revenue growth in Q2 2023 dropped to negative as softer discretionary spending by enterprises continued to hamper providers' ability to drive revenue growth and with no relief expected in the short-term, providers have given a pessimistic growth outlooks for remainder of 2023.

Average attrition continued to drop and reached 17.1%, while headcount growth further slowed down and is now negative for most providers. Providers are not actively back-filling roles and are focused on driving utilization in a bid to protect their bottom line.

In onshore locations, in-house delivery center setups by manufacturing sector outpaced setups by technology and communications sector. These were driven by the automotive sector setting up innovation/R&D centers focused on autonomous driving, battery technology, chassis development, etc. Enterprises are looking to set up close to their customer bases and to tap the already established R&D infrastructure in these locations.

Global services dashboard

Outsourcing transactions

- AI-based contracts registered a 68% YoY growth in Q3 2023
- The growth was fueled by generative AI-based deals as enterprises and providers work together to explore new use cases
- Further, Market Vista Index service providers such as Accenture, Wipro, Genpact, and Capgemini have announced significant investments in expanding their offerings as well as training and certifying their employees in AI

AI-based contracts

Q3 2022 – Q3 2023; number of deals



Market Vista™ Index providers developments

- Providers' revenue growth in Q2 2023 dropped to negative due to softer discretionary spending by enterprises. As a result, providers are not able to drive revenue from ongoing engagements
- Headcount growth further dropped for both offshore-heritage and global service providers as they are not actively back-filling roles and focusing on increasing billable utilization to protect margin erosion
- Overall operating margin dropped by 95 bps sequentially in Q2 2023. As revenue growth has slowed down, providers have put in place cost-optimization plans aimed at reducing headcount and reducing/consolidating real estate
- Providers are willing to take one-time hits from cost optimization plans to gain long-term operating leverage

Sequential growth in operating margin (Q2 2023 vs. Q1 2023)

Basis points

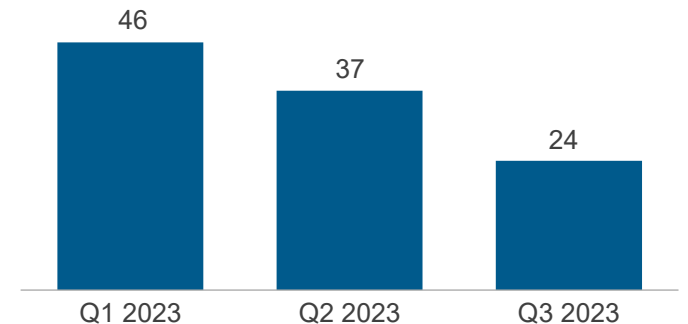


Delivery center updates

- In-house delivery centers dropped slightly in Q3 2023
- In offshore locations growth was driven by India with 49% of the total center setups, while in onshore locations North America as well as the UK and Western Europe contributed 90% of the total center setups
- Center setups by manufacturing outpaced center setups by technology and communications vertical for a second quarter in a row
- Delivery centers opened by service providers are on a downward trajectory since Q1 2023 as providers are reassessing their real estate needs and are in the process of reducing/consolidating their offices

Delivery centers opened by providers

Number of new center setups and expansions



Market Vista reports highlight key trends and developments across outsourcing transactions, the overall health of transactions and Global Business Services (GBS) markets, location risks and opportunities, and provider developments

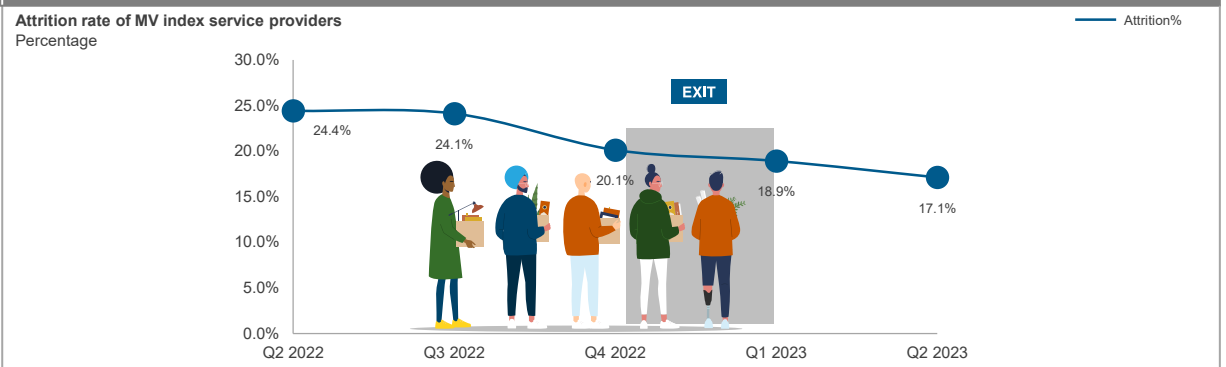
Service provider developments | Market Vista™ Index service providers

Global service providers

Engineering service providers

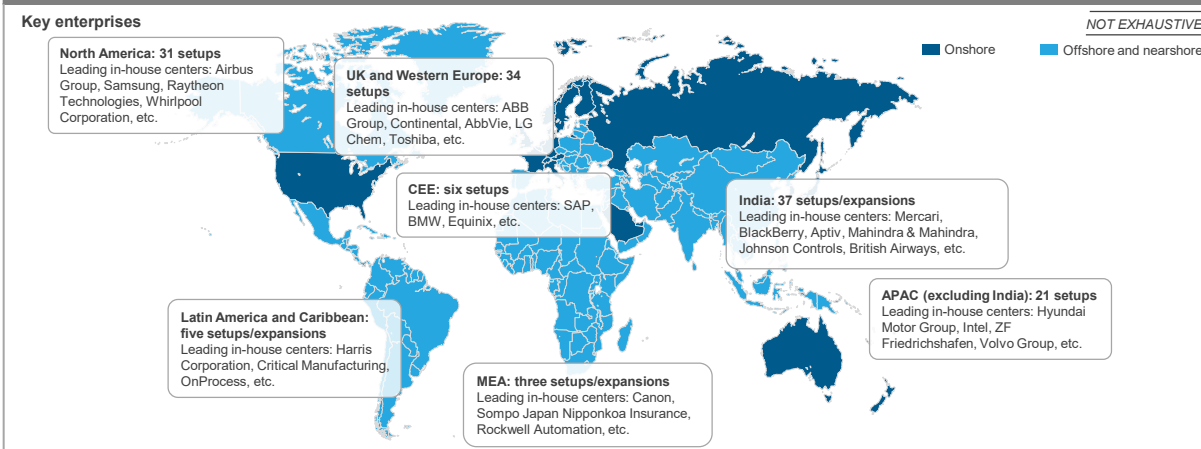
Offshore-heritage service providers

Service provider developments | Market Vista™ Index service providers overview



The average attrition rate decreased by 180 bps sequentially to reach 17.1% in Q2 2023. Attrition continues to be on its downward journey as providers have slowed down hiring and the current macroeconomic conditions have severely affected the job market. This is significantly bringing down voluntary attrition. Most providers have signed record bookings with a significant share of long-term and large-value deals. As these deals start to ramp up, providers will be looking to increase hiring to curb demand-side pressure. As a result, we expect average attrition to keep declining in the short term and then increase as demand rises again.

In-house delivery setups and expansions | by region



Locations dashboard

Location	Top cities	Number of center setups	Share of digital centers	Share of tier-2/3 centers	Share of in-house delivery centers	Favorability of operating and business environment
Top onshore location						
US	Philadelphia, New York	32 ↑	↓	↓	↑	High
Germany	Heidelberg, Brunsbüttel	8 ↑	Same	↑	↑	Moderate
Italy	Rome and Milan	4 ↑	Same	↑	↑	Moderate
South Korea	Seoul and Daejeon	3 ↑	↓	↑	↑	Moderate
Singapore	Singapore	2 ↓	Same	↓	↓	High
Top offshore/nearshore location						
India	Bangalore, Hyderabad	47 ↑	↑	↑	↑	Moderate
China	Shanghai, Shenzhen	11 ↑	↑	↑	↑	Moderate
Malaysia	Kuala Lumpur	8 ↑	↑	↑	↑	Moderate
Spain	Barcelona	5 ↑	↑	Same	↓	Moderate
Ireland	Dublin	4 ↓	↓	↑	Same	Moderate
Costa Rica	San Jose	3 ↓	↓	↓	Same	Moderate
Portugal	Lisbon, Porto	3 ↓	↓	↑	↓	Moderate
Canada	Vancouver	3 ↑	↑	↑	↓	Moderate
Indonesia	Jakarta	3 ↑	↓	Same	↑	Moderate
Romania	Bucharest	2 ↑	Same	↑	↑	Moderate

↓ Decreased from last quarter ■ Low
■ Same as last quarter ■ Moderate
↑ Increased from last quarter ■ High

- The share of top onshore locations center setup activity decreased in Q3 2023 to 49 centers compared to 53 centers in Q2 2023; the share of top offshore/nearshore locations center setup activity increased in Q3 2023 to 89 centers compared to 81 centers in the previous quarter. Italy and South Korea were the new entrants among the top onshore locations, while Malaysia, Portugal, and Indonesia were the new entrants among the top offshore/nearshore locations.
- The leading onshore locations have highly favorable operating and business environments, whereas most of the leading offshore/nearshore locations have moderate risk exposure.

Research calendar

Market Vista™

■ Published
 ■ Planned
 ■ Current release

Reports title	Release date
Market Vista™: Industry Insights – Healthcare	October 2022
Market Vista™: Industry Insights – Retail and CPG	December 2022
Market Vista™: Q4 2022	December 2022
Market Vista™: Q1 2023	March 2023
Market Vista™: 2022 Year in Review and Outlook for 2023	April 2023
2023 Key Issues in Global Sourcing	April 2023
Market Vista™: Q2 2023	June 2023
Market Vista™: Industry Insights – Oil and Gas	June 2023
Market Vista™: Q3 2023	September 2023
Market Vista™: Industry Insights – Life Sciences	December 2023
Market Vista™: Q4 2023	December 2023
Market Vista™: 2023 Year in Review and Outlook for 2024	Q1 2024
Market Vista™: Q1 2024	Q1 2024
Market Vista™: Q2 2024	Q2 2024
Market Vista™: Q3 2024	Q3 2024
Market Vista™: Q4 2024	Q4 2024

Note: [Click](#) to see a list of all of our published Market Vista™ reports



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Stay connected

Dallas (Headquarters)
info@everestgrp.com
+1-214-451-3000

Bangalore
india@everestgrp.com
+91-80-61463500

Delhi
india@everestgrp.com
+91-124-496-1000

London
unitedkingdom@everestgrp.com
+44-207-129-1318

Toronto
canada@everestgrp.com
+1-214-451-3000

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