



Market Vista™ : Select Findings Q3 2019

Data and Analysis – April-June 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

Global services | Key market trends in Q2 2019



The technology & communications vertical experienced a decline due to a slowdown in telecom in the wake of financial stress and industry consolidation.

Technology & communications enterprises increased their GIC setups for business processes in North to deliver finance and customer support services.

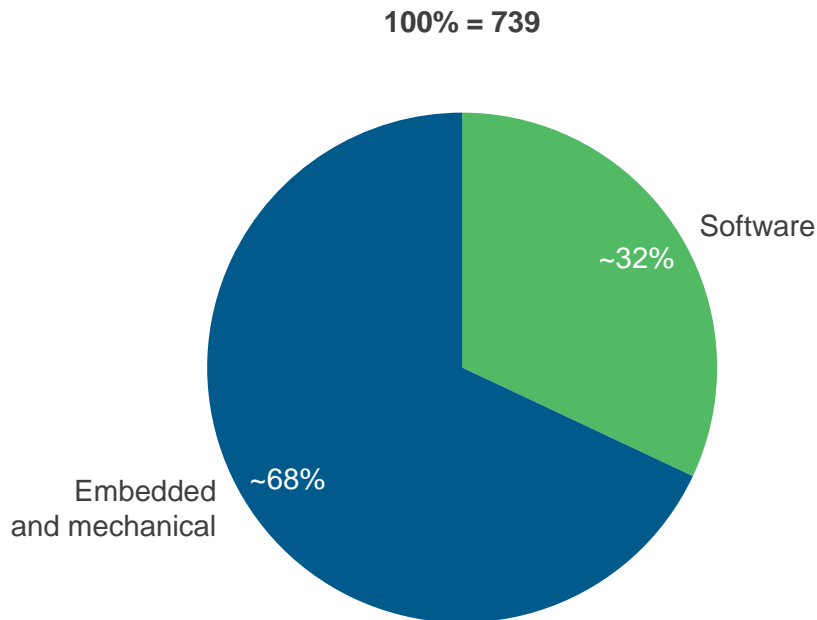
BP-focused center setups declined in India, slowing down Asia Pacific at large; service providers were primarily responsible for this decline.

The share of digital in M&A activity declined significantly. Meanwhile, digital-focused alliances increased due to cost benefits for enterprises and the opportunity to jointly utilize resources for capability expansion. For example, Accenture partnered with Generali Employee Benefits to jointly launch a blockchain solution to provide employee benefits such as life and healthcare insurance.

Enterprises across verticals are increasingly relying on software to enable new product features and business models in line with the evolving customer expectations

Global business Engineering R&D (ER&D) spend and share of software¹
2018; US\$ billion

EVEREST GROUP ESTIMATES



- Software accounted for nearly one-third of the global Engineering R&D (ER&D) spend by businesses in 2018
- Over the last three years, software has also been the fastest growing segment in the business ER&D spend
- Accelerated spending by Independent Software Vendors (ISVs) and internet companies has been providing significant impetus to the growth of software; the 40 largest ER&D spenders in the software and internet space witnessed a cumulative YOY growth of ~17% in their ER&D spend during 2018
- Additionally, as innovators across other verticals look to meet the rapidly-evolving customer expectations, they are increasingly focusing on augmenting their existing products and offerings with software-driven features and functionalities
- The advent of software-driven themes such as AI/ML, AR/VR, IoT, and blockchain is helping push the proliferation of software in traditionally hardware-heavy verticals such as automotive and medical devices

¹ This excludes any non-ER&D spend (non-addressable spend such as clinical R&D expenditure in pharmaceuticals and biotechnology & molecular development expenditure in chemicals) or ER&D spend by the government

The current quarter reported 474 transactions, compared to 501 in Q1 2019

- Deals for BFSI and government were the highest among all industry verticals
- Rest of the Europe saw a decline in the volume of deals on account of decrease in outsourcing demand across the technology & communications vertical
- Very short-term deals were the highest in terms of both volume as well as share

In Q2 2019, GIC activity in offshore/nearshore locations decreased significantly, while it increased marginally in onshore locations

- Offshore Asia Pacific accounted for ~40% of the total GIC setups and expansions; China and Singapore continued to remain the preferred locations in the region
- India witnessed a significant decline in GIC activity with nine new setups in Q2 2019, compared to 18 in Q1 2019
- The Middle East and Africa (MEA) gained traction and accounted for 15% of the total activity in Q2 2019, compared to 9% in Q1 2019. The majority of centers opened in this quarter support engineering functions of the parent company
- Digital-focused GICs for offshore/nearshore locations formed 67% of the total new center setups, compared to 46% in Q1 2019. Similarly, the share of digital-focused GICs in onshore locations grew from 44% to 49% in Q2 2019 over the last quarter

Location activity in Q2 2019 involved 70 new offshore/nearshore and 62 new onshore center setups

- In the offshore/nearshore regions, Asia continued to lead with ~47% share in new setups, driven by India and China
- In the onshore regions, activity was dominated by North America and Western Europe; however, the United States led the activity among all the countries
- In terms of the type of organization, the activity was driven by GICs across both offshore/nearshore and onshore locations. However, GICs saw a decline in their share of setups, while an increase was observed for service providers in comparison to the previous quarter

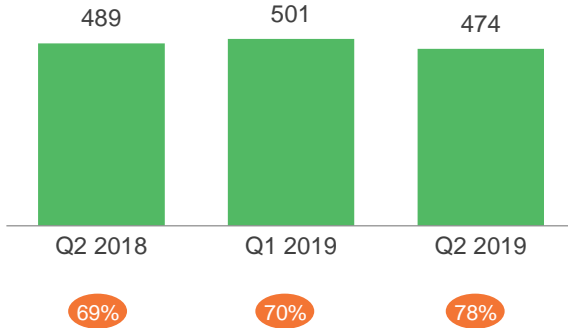
The revenue for global service providers decreased marginally, while there was a slight increase for offshore-heritage service providers

- The operating margin for both global and offshore-heritage service providers declined as compared to the previous quarter
- The overall outsourcing transaction activity witnessed a substantial decline. The share of Market Vista™ Index service providers also decreased slightly in Q2 2019 as compared to the previous quarter. Within Market Vista™ Index service providers, deal activity from global service providers witnessed a significant decline in the volume of deals, as compared with the previous quarter
- Both M&A and alliances activity witnessed an increase in Q2 2019

Global services dashboard: Q2 2019

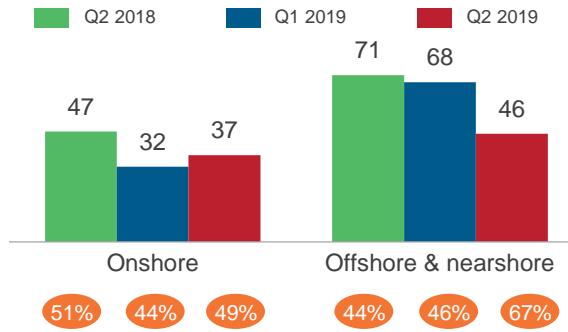
Outsourcing/offshoring market overview

Outsourcing demand decreased, while the share of digital deals increased compared to the previous quarter¹
Number of outsourcing transactions



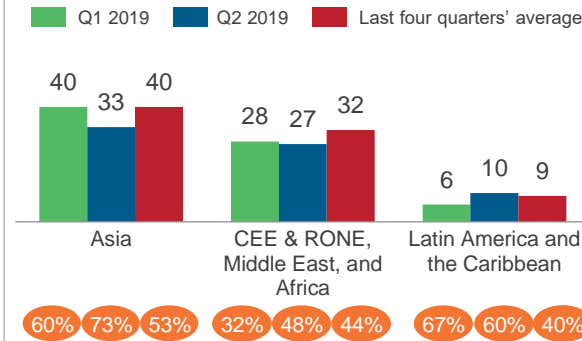
GIC activity decreased vis-a-vis Q1 2019

Number of new GIC setups and expansions²



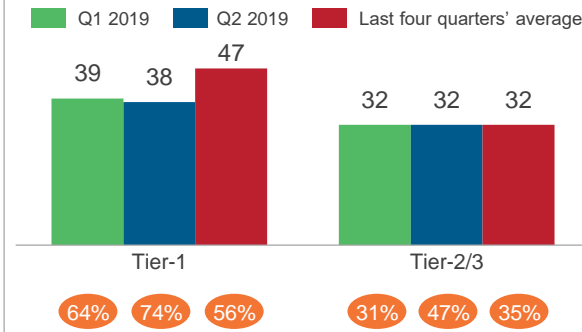
Offshore/nearshore location dynamics

Location activity was dominated by Asia, increase in Latin America and the Caribbean compared to Q1 2019
Number of delivery center setups



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

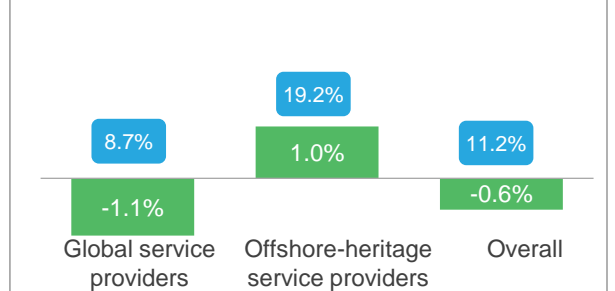
Number of delivery center setups



● Share of digital-focused activity ● Operating margin

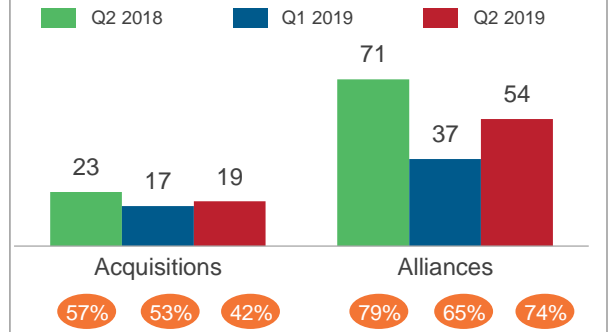
Service provider developments and trends

The consolidated revenue for both offshore-heritage and global providers decreased in Q1 2019
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

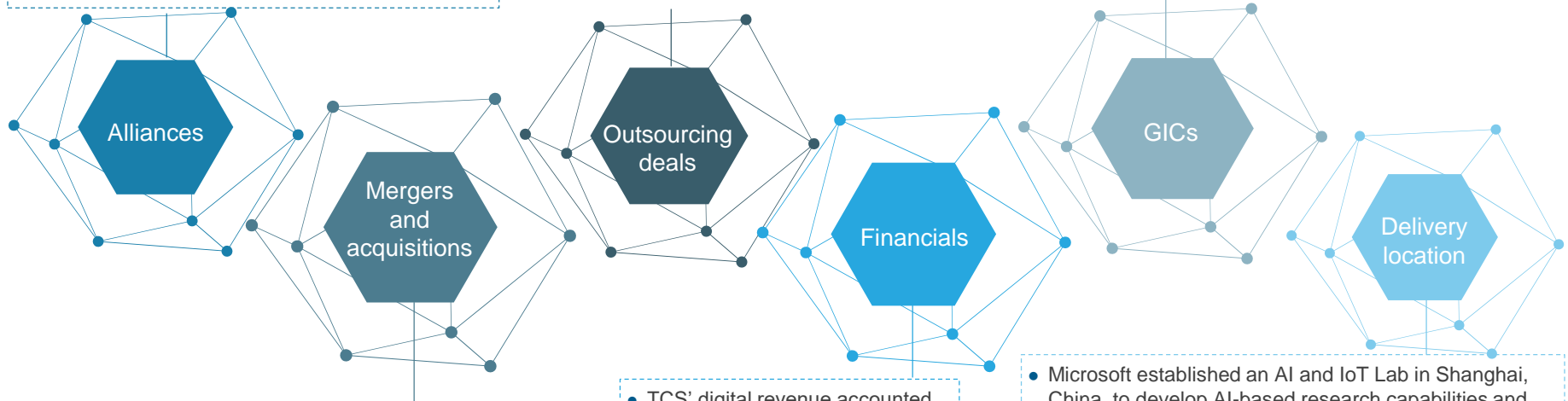
Key developments in the digital space – Q2 2019

Digital-focused activity

- ADP partnered with Google Cloud to launch identity services automation solution with Google Cloud's Identity and G Suite. The partnership will enable customers unite HR and identity solutions to simplify user lifecycle management
- HCL partnered with PTC Capability to launch Realtime Manufacturing Insights (RMI), an IoT solution, that leverages PTC's ThingWorx industrial IoT and Kepware industrial connectivity platforms

- US Army selected CACI International for cyber security services
- National Grid selected Atos for analytics services
- Office of the Government (Hong Kong) selected Hong Kong Telecommunications for mobility services
- Air Force Personnel Center (U.S.) selected Unisys for cloud services

- Enterprises such as Daimler, Deloitte, Essence Global, Google, Huawei, Microsoft Corporation, Mitsubishi Motors, Qualcomm, Siemens, Standard Chartered, Visteon and WeBank opened GICs to perform digital functions in offshore and nearshore locations
- Enterprise such as Adepto, BP, Ericsson, Ernst & Young, Hewlett-Packard, KPMG, Nvidia, Samasource, Spotify, Volkswagen, and ZF Friedrichshafen opened GICs to deliver digital services in onshore locations



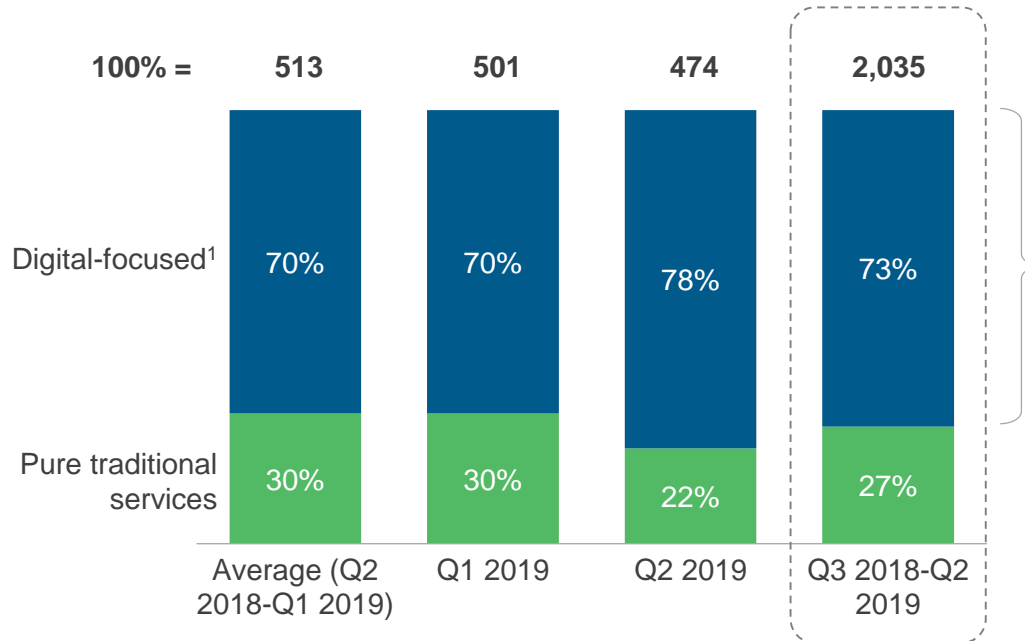
- Leading providers such as Accenture, Cognizant, Capgemini, DXC Technology, and Wipro continued to expand their digital capability through acquisitions
- During the quarter, Accenture acquired BRIDGE Energy Group, a consulting and systems integration firm, to enhance its grid modernization, analytics, and security service capabilities in North America. Employees from BRIDGE will join the utilities practice of Accenture's resources operating group

- TCS' digital revenue accounted for 31% (~US\$1,642 million), a sequential increase of ~4%
- DXC reported a strong double-digit sequential and YoY growth in Digital revenue with a book-to-bill of 1.8x

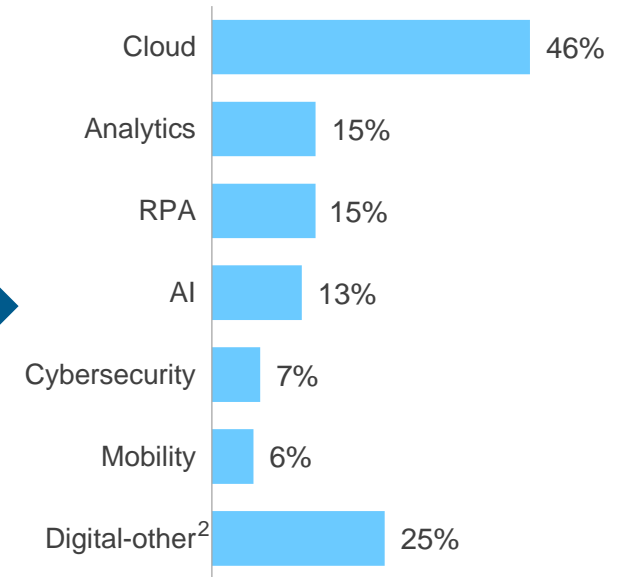
- Microsoft established an AI and IoT Lab in Shanghai, China, to develop AI-based research capabilities and applications
- Stefanini opened a new innovation and delivery center in Mexico City, Mexico to develop and offer digital solutions using agile approaches such as scrum, DevOps, and design thinking
- Altran opened a new center in Lisbon, Portugal focusing on data analytics and AI to meet the growing market demand. The teams will operate as part of Tessella, Altran's center of analytics

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



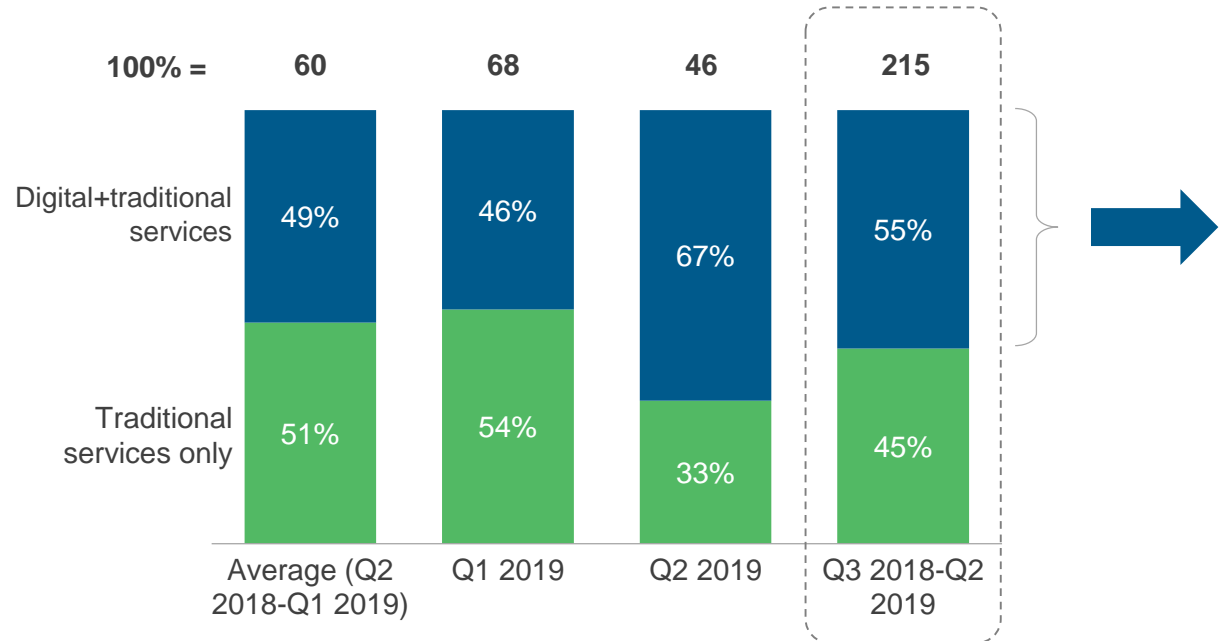
The share of digital-focused transactions witnessed a significant increase as compared to the previous quarter

¹ Includes transactions that provide digital as well as traditional services

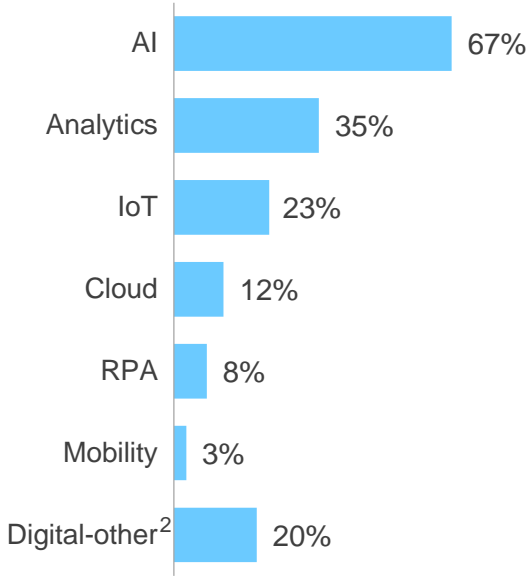
² Others include digital components such as social media, Internet of Things (IoT), digital interactive, consulting (e.g. cloud, management, and strategic.), and blockchain

GIC activity for digital services increased 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

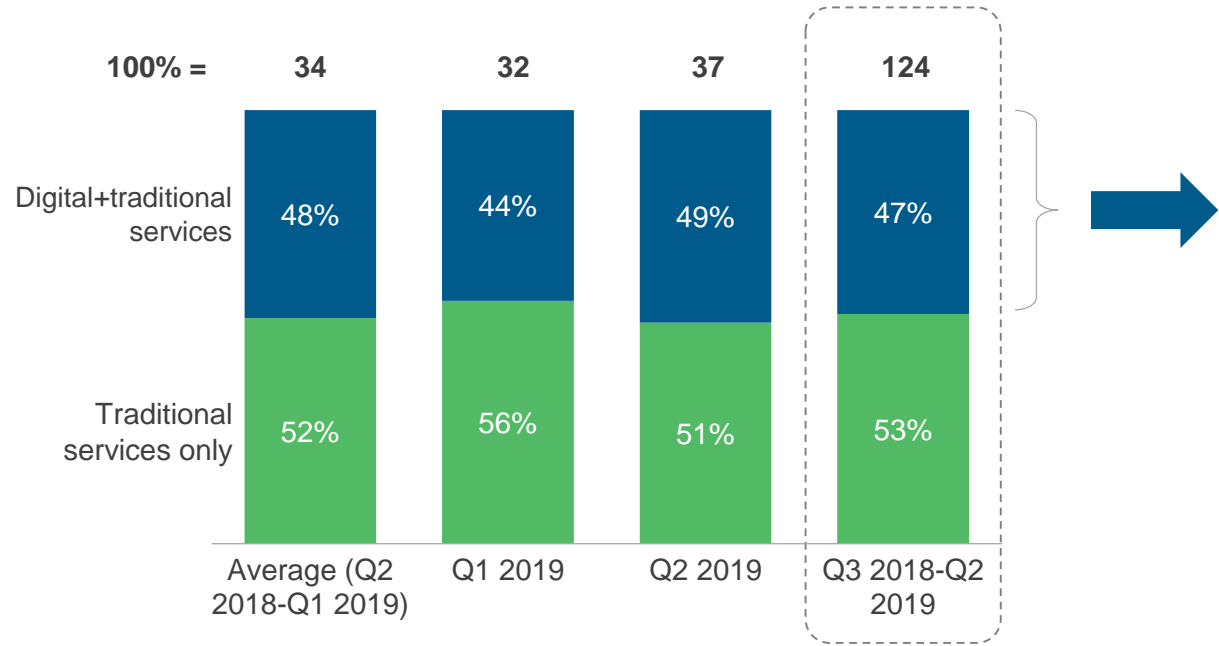


The share of digital-focused GICs in offshore locations increased significantly from 46% in Q1 2019 to 67% in Q2 2019

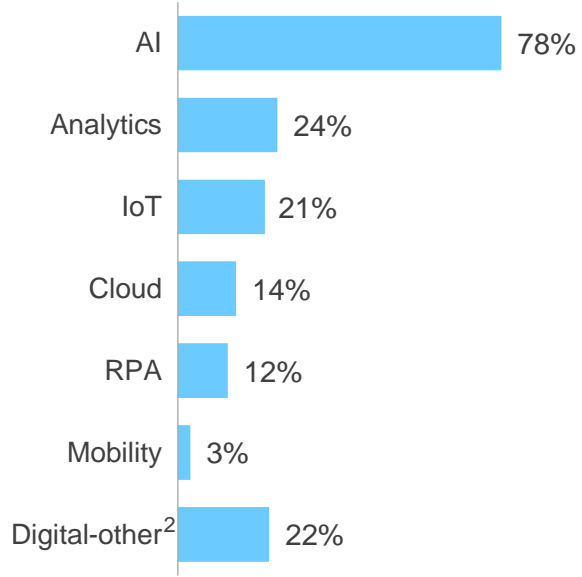
¹ Includes centers that have multiple digital components
² Others include digital components such as social, cybersecurity, and blockchain

Similar to offshore/nearshore locations, 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 44% in Q1 2019 to 49% in Q2 2019 vis-à-vis the pure traditional services, which showed a decline in adoption over the last quarter

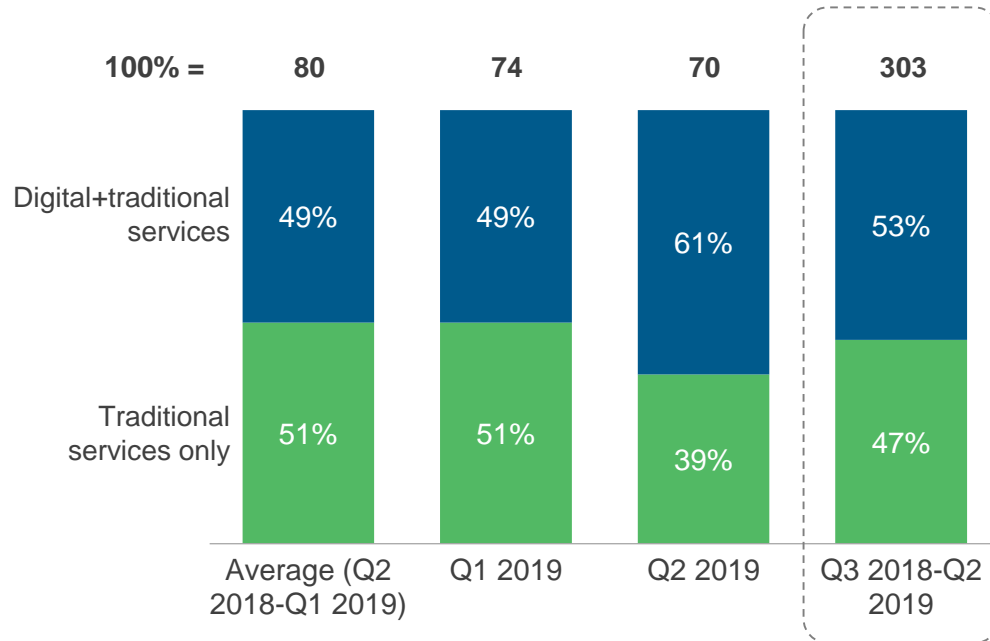
¹ Includes centers that have multiple digital components
² Others include digital components such as social, cybersecurity, and blockchain

Locations | Offshore/nearshore digital market activity

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

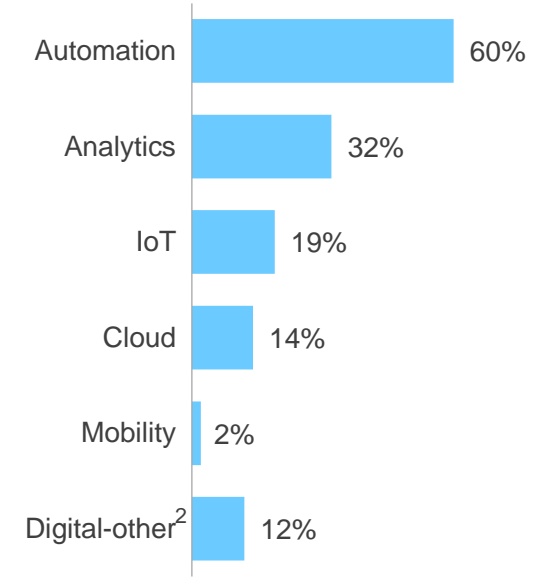
Offshore/nearshore locations activity

Number of service delivery centers set up



Distribution by digital components

Number of service delivery centers set up¹



- Q2 2019 witnessed an increase in the share of digital-focused center setups as 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 China. 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

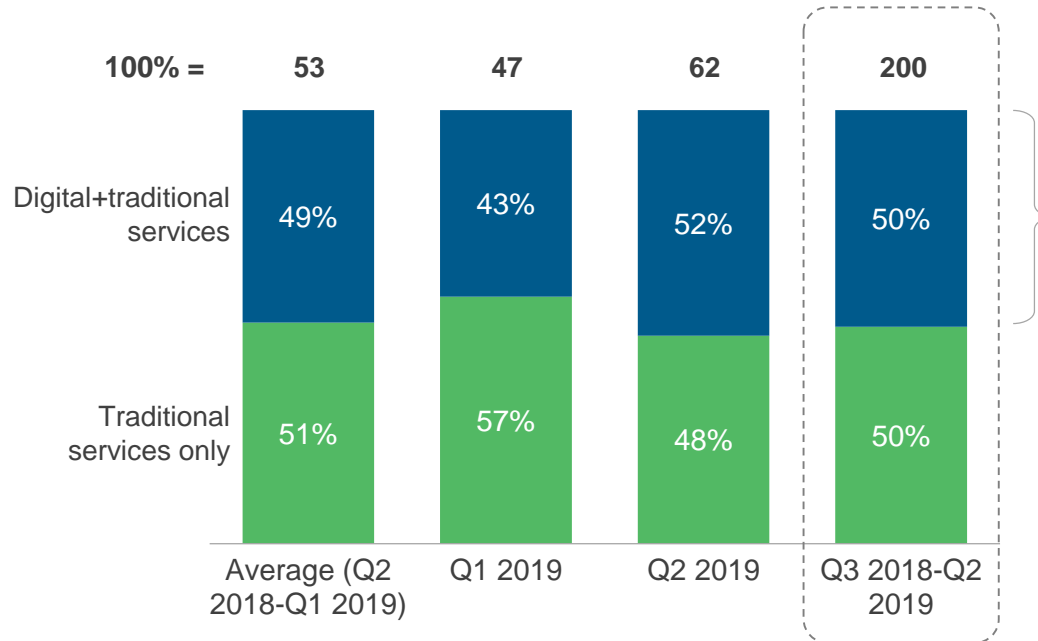
² Others include digital components such as social, cybersecurity, and blockchain

Locations | Onshore digital market activity

In onshore locations, automation drives investment within digital services

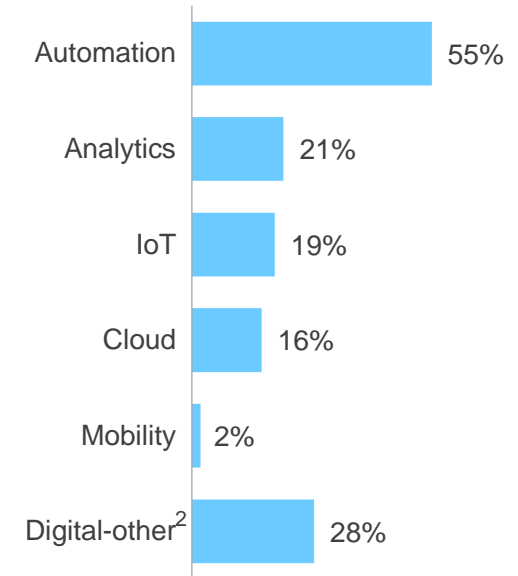
Onshore locations activity

Number of service delivery centers set up



Distribution by digital components

Number of service delivery centers set up¹



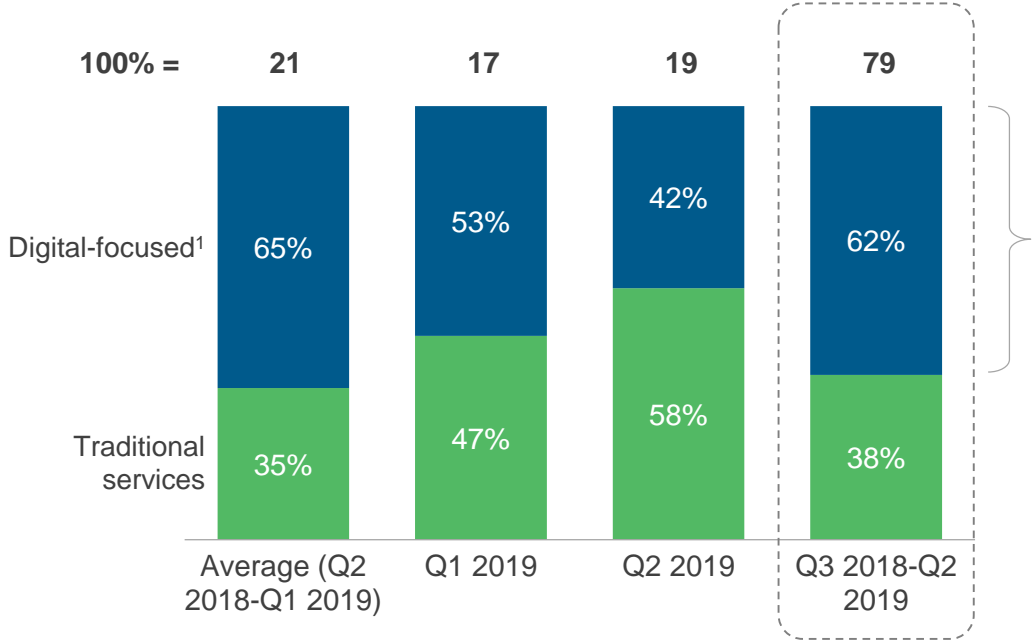
- Among digital services, automation continues to be the major service supported from new centers;-increasing focus on blockchain and cybersecurity
- Digital services activity was driven by the United States. GICs accounted for the majority of center setups with digital activity, followed by MV service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

¹ Includes new centers that have multiple digital components

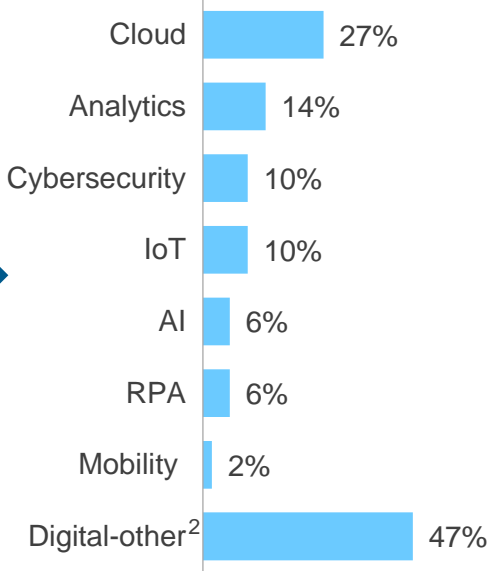
² Others include digital components such as social, cybersecurity, and blockchain

Cloud continued to be the leading digital component of M&A activity for service providers

M&As by type of service
Number of acquisitions



Distribution by digital components
Number of acquisitions



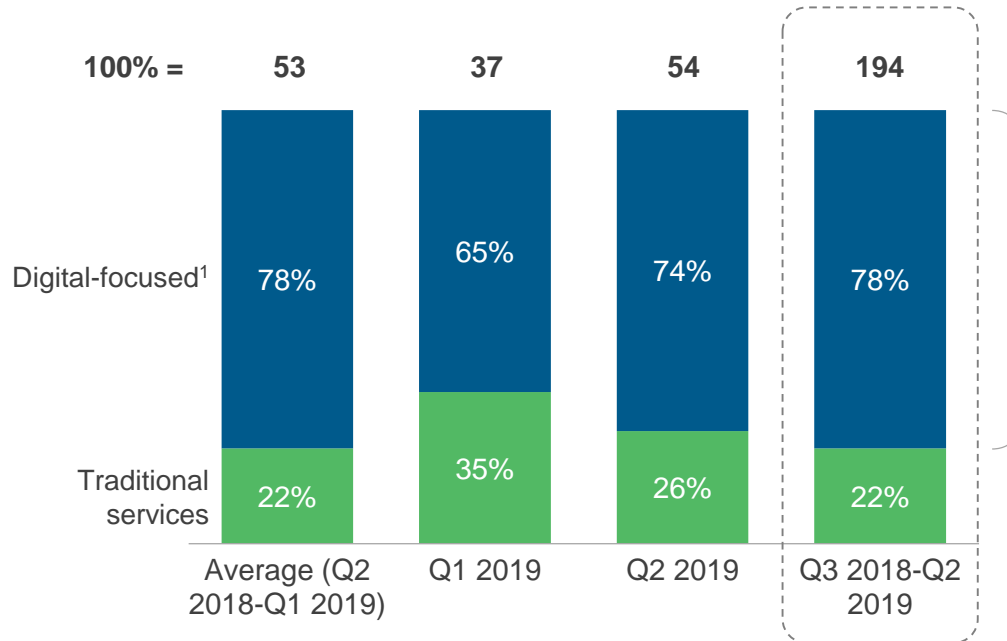
Digital-focused acquisitions decreased significantly in Q2 2019, compared to the previous quarter. Cloud and analytics are among the top focus areas for service providers within digital-focused acquisitions.

¹ Includes acquisitions that have multiple digital components
² Other include digital components such as social and Blockchain

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

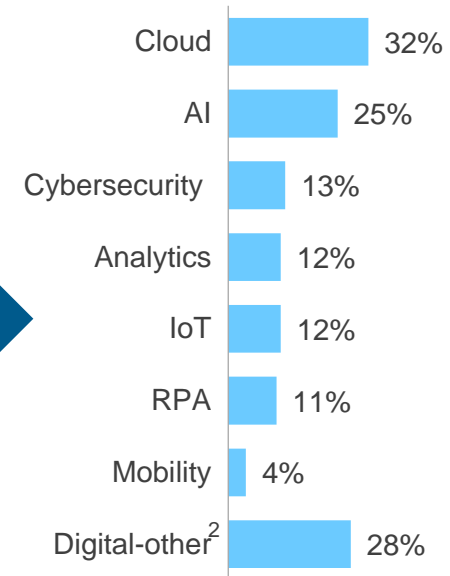
Alliances by type of service

Number of alliances



Distribution by digital components

Number of alliances



The share of digital-focused alliances increased significantly from 65% in Q1 2019 to 73% in Q2 2019. On the other hand, the pure traditional services showed a decline in adoption over the last quarter.

¹ Includes acquisitions that have multiple digital components
² Other includes 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™ Q2 2019** ([EGR-2019-35-R-3181](#)); 2019. This report summarizes the key trends and developments for Q1 2019 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 – Retail and CPG** ([EGR-2018-35-R-3198](#)); 2019. 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 retail and CPG majors as well as leading service providers in this sector. This report will be useful for retail and CPG 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

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