



RESEARCH INSTITUTE

Everest Q2 Report: Europe, Captives Driving Strong Outsourcing Market

Report Features: Central and South America Markets, Indian KPO Suppliers

Press release

DALLAS and GURGAON, August 13, 2008 – Europe inked 41 percent of the outsourcing contracts during the second quarter and offshore captive growth continued to surge during the period, according to the [Everest Research Institute's quarterly report](#) on global outsourcing and offshoring activity.

According to the Institute's newly released [Market Vista: Q2 2008](#) report, 417 outsourcing contracts were signed in the first quarter. Publicly disclosed transactions during the quarter are valued at US\$2.6 billion in annual contract value (ACV). Seventy percent of the contracts were for IT Outsourcing (ITO) and 28 percent for Business Processing Outsourcing (BPO) engagements.

The Institute's Q2 report also features profiles outsourcing activity in Central and South America with an analysis that concludes labor savings will not be sustainable for Brazil, Chile and Mexico in five to ten years.

"Despite the current economic climate in the United States, the outsourcing market is strong and continues to experience healthy growth," said [Eric Simonson](#), Managing Principal, [Everest Research Institute](#). "Europe is fueling market growth, and global suppliers are well aware of the competition challenges associated with this emerging market. Another interesting development is the advance of the captive model, despite market rumors of decreased activity, in large part driven by the manufacturing and retail segments."

Market Vista: Q2 2008 Executive Summary

Market Overview

- Q2 2008 witnessed a 3 percent increase in transactions over Q1
- 417 new transactions in Q2, at US\$2.6 billion in annual contract value (ACV), of which 70 percent were ITO, 28 percent BPO and 2 percent were both
- Forty-five percent of transactions were signed in Q2 by banking and financial services; manufacturing, distribution and retail; telecom and healthcare industries
- Europe, including the United Kingdom, has gained considerable momentum in outsourcing activity over previous few quarters, signing 41 percent of outsourcing transactions in Q2 on the heels of 36 percent in Q1. Key deals were struck in UK, Germany, Sweden, and Switzerland with large deal signings in manufacturing and telecom industries

Captive Developments

- The captive model continues to thrive with 18 new set-ups and three divestitures bringing 2008 total to 34 set-ups and six divestitures
- Captives are increasingly exploring options for externalization and commercialization initiatives with the overall trend to drive continued value addition beyond providing cost savings to the parent company

Financial Services Highlights

- Financial services companies signed 54 transactions in Q2 valued at more than US\$240 million in ACV, with North American firms showing a strong uptick by signing 41 percent of them compared to 26 percent in Q1
- While the insurance sub-vertical contributed a smaller share than previously, some of the larger contracts were in this sector

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Location Activity

- Tier-II cities in China are becoming credible options and are typically 20-25 percent cheaper than Tier-I cities. They are emerging faster than Tier-II cities in India
- India, Philippines, and Romania continue to experience high offshore activity in Q2 as occurred in Q1. Poland, Malaysia, and Northern Ireland also saw high offshoring activity
- Brazil introduced a new tax policy that will reduce operating costs and taxes by ~2 percent for IT and BPO firms
- India wage inflation and attrition have decreased with an annual salary hike expected to be ~8-12 percent against 15-20 percent last year
- Labor arbitrage with the United States is likely to diminish in some Latin American countries in the short to mid term. At currency appreciation and inflation rates, labor arbitrage value proposition is not sustainable for Brazil, Chile and Mexico for more than five years for IT services

Supplier Developments

- Consolidated revenues and operating margins declined in Q12008 versus Q4 2007, but offshore-centric suppliers are faring better than traditional major suppliers
- Revenues for offshore-centric suppliers increased by 5 percent sequentially
- M&A and alliance activity increased significantly in Q2 with 22 M&A transactions (15 in Q1) and 37 alliances (18 in Q1)
- Offshore-centric suppliers are making significant investments in "platform BPO" to "up-shift" their value propositions

The Institute's quarterly [Market Vista](#) reports provide data and analysis across multiple dimensions, including deal trends in the outsourcing and offshoring market; captive model analysis including new center announcements, expansion, and divestiture; current and emerging location analysis including risks and opportunities and government initiatives; key supplier developments including transaction activity, changes in delivery footprint, M&A and alliance activity; and analysis of key developments across the top 20 financial services companies globally. The Q2 2008 Market Vista report features focus analyses of Central and South American cities and the India Knowledge Process Outsourcing (KPO) supplier landscape.

[Market Vista](#) is a subscription service with four reports published per year. For information about Market Vista or other research services, please visit www.everestresearchinstitute.com, e-mail info@everestresearchinstitute.com or call +1-214-451-3110.

About Everest Research Institute

[Everest Research Institute](#) serves as a central source of independent and objective strategic intelligence, analysis, and actionable insight for leading corporations, service providers, and investors in the global outsourcing and offshoring marketplace. The Institute addresses both business process and information technology sourcing topics, providing the global outsourcing and offshoring community with information that empowers highly productive, sustainable sourcing strategies and relationships. The Institute's distinguished [Board of Advisors](#), [senior executives](#), and thought leaders oversee the Institute's research agenda to ensure that it fully supports the business needs of corporations, service providers, and investors.

Everest Research Institute members receive access to unparalleled analytical and advisory services, including access to [Everest analysts](#), in-depth [reports](#) on major outsourcing and offshoring topics, [whitepapers](#) on market-shaping events, and [webinars](#) designed to provide insight and information about important market trends. The Institute's wealth of knowledge and experience provides members with unique perspectives into today's marketplace and the competitive edge required to take advantage of emerging opportunities.

[Everest Group](#) is a global operational strategy consulting firm with offices in such leading business centers as Dallas; Gurgaon, India; London; Amsterdam; New York; Toronto and Melbourne. An industry leader since 1991 when we created the sourcing consulting category, Everest Group has earned a worldwide reputation for ongoing innovation as we help clients achieve maximum value from their operations, which includes sourcing strategy and implementation. Everest created the Everest Research Institute as the central source of industry information. Please visit www.everestgrp.com and www.everestresearchinstitute.com for more information.