Market Report | Executive Brief

Wrapped 2022, Unwrapping 2023

January 2023

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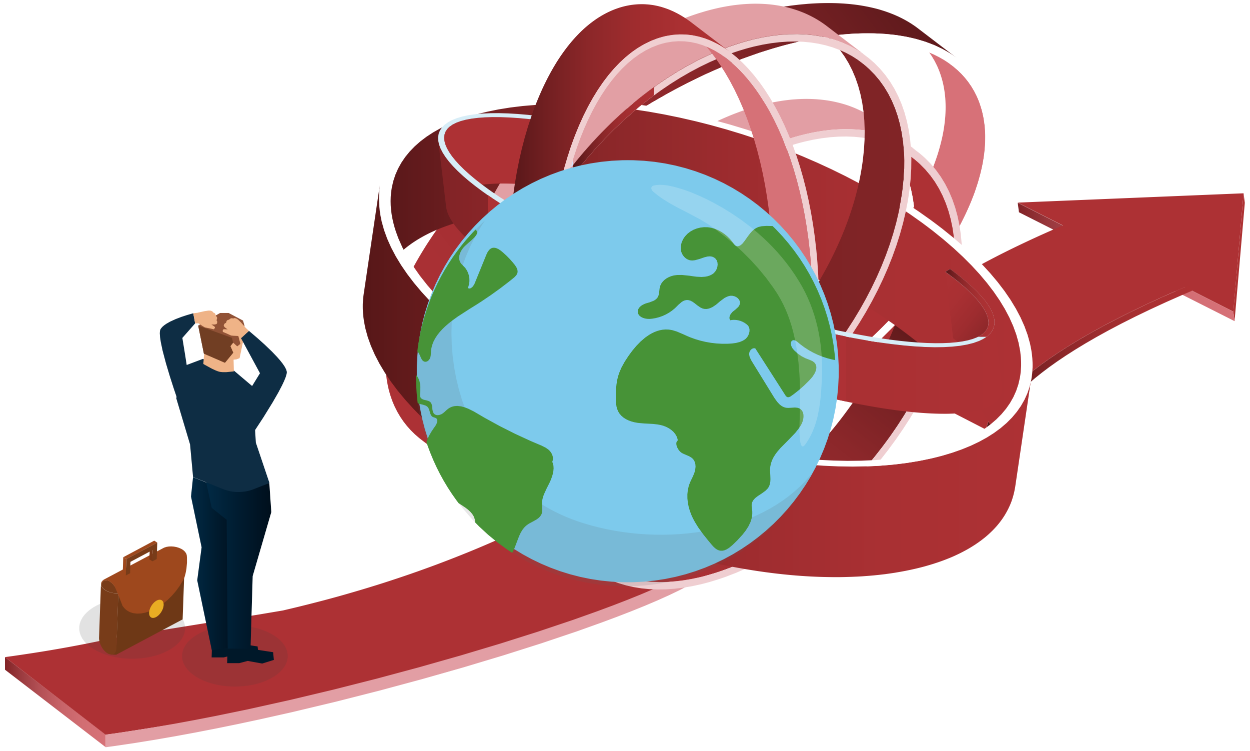
Several economic indicators imply that a global slowdown is around the corner, leading to rising concerns as to how the slowdown will impact the global services sector



MAJOR REASONS FOR CONCERN

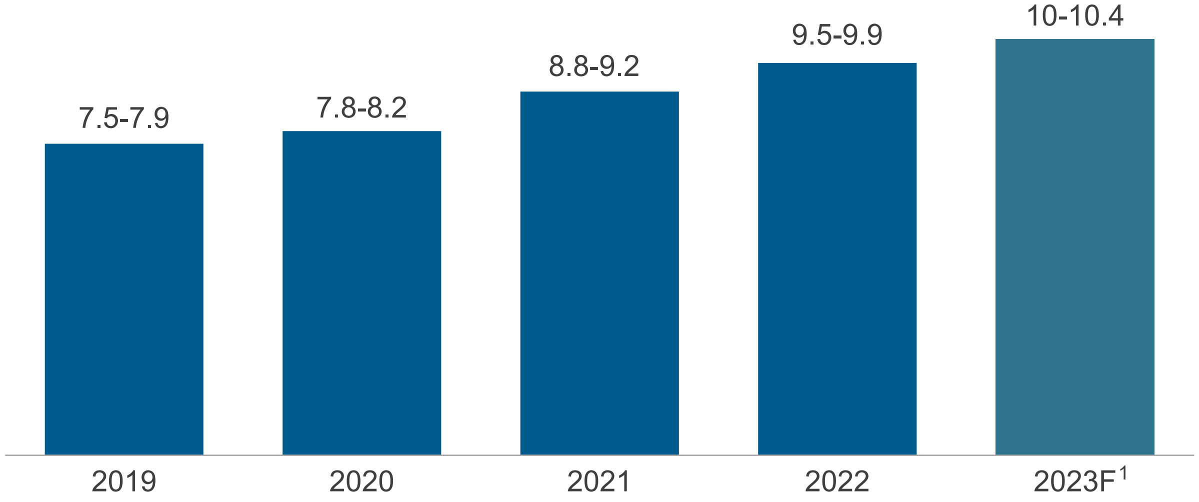
High exposure to US and Europe markets – risk of declining demand from customers, leading to topline decline

The war for talent continues – high wage inflation and attrition, especially for digital skills

Continued margin pressures due to high wage inflation

However, we expect the global services market to remain resilient

Global services headcount
2019-23F[1]; number of FTEs (in millions)



Annual growth in key parameters
2019-22; percentage

	2019-2020	2020-2021	2021-2022
Headcount in global services	3-5%	11-13%	7-9%
Revenue in global services	3-5%	13-15%	10-12%

Key factors driving growth of the global services industry in 2023

- Quick mass-adaptation to hybrid model
- Continued growth across industries
- Increased digital adoption among traditional players
- Rising next-generation business models
- Pent-up demand from organizations

1 F = Forecast
Note: Includes global services exports from offshore-nearshore locations; excludes the domestic market
Source: Everest Group (2023)

Everest Group's predictions – 2022 and 2023

The global services industry is normalizing to pre-pandemic levels; recessionary forces will further push the case for offshore/nearshore locations

	Our predictions for 2022	How 2022 turned out	Our predictions for 2023
Global services market revenue	Will increase by 9-11%	Increased by 10-12%	Will continue growth, albeit at slower rate of 7-9%
Global services market headcount	Will increase by 5.5-7.5%	Increased by 7-9%	Will go back to pre-pandemic growth of 5-7%
New delivery center setups	More growth in tier-2/3 cities, driven by need for diverse talent pools	Center setups in tier-2/3 cities grew by ~45% (vs. 30% growth for setups in tier-1 cities)	Continued uptick for tier-2/3 cities, driven by cost pressures and ease of hybrid working

Global services market snapshot

India and the Philippines continue to dominate the global services market; Poland and Mexico command majority share in Europe and LATAM, respectively

Note: Location maturity is based on a combination of factors including size of the global services market and functional splits, breadth and depth of services being supported, and growth in terms of headcount and new center setup activity
Source: Country- and city-level investment promotion agencies and global services organizations

Summary of key messages | APAC

Global services headcount in 2022 (million FTEs)	Global services market growth over 2021	Number of new center setups in 2021
5.9-6.1	7-9%	130

- After a slump following the COVID-19 pandemic, the Asia Pacific region witnessed strong rebound growth and stabilized at 7-9% in 2022
- The region also recorded significant increase in the number of new delivery centers in 2021 (130 vs. 93 in 2020), largely focused on engineering, R&D, and digital services
- India continues to be the preferred all-rounder location, followed by the Philippines. Both countries collectively account for almost half of the global services market and ~90% of the APAC market
- Significant growth experienced across tier-1 and tier-2/3 locations, especially in India; focus on expanding high-value work and creating CoEs in tier-1 sites, and expanding access to talent pool for traditional services in tier-2/3 locations
- Going forward, the region is likely to stand strong amid inflationary pressures and experience steady growth, due to almost unparalleled talent-cost proposition

Summary of key messages | Europe

Global services headcount in 2022 (million FTEs)	Global services market growth over 2021	Number of new center setups in 2021
1.7-1.9	8-10%	76

- The European global services market reported a healthy 8-10% growth rate driven by skills availability, proximity to customers in Western Europe, increased regulatory oversight driving the need for nearshore support, and demand for multi-lingual support
- Growth is primarily driven by GBS organizations, which accounted for over 68% of the new delivery centers established in 2021 (vs. 63% in 2020)
- Market activity was driven by centers delivering engineering, R&D, and niche digital services such as cybersecurity and cloud
- Poland continues to hold its top-tier position in the European market, followed by Scotland, Romania, the Czech Republic, and Ireland. Portugal and Spain are experiencing increased traction as companies angle for stable environments amid the Ukraine-Russia war
- Going forward, the triple whammy of high inflation, energy crisis, and sluggish economic growth is likely to result in muted growth for the region

Summary of key messages | Middle East and Africa (MEA)

Global services headcount in 2022 (million FTEs)	Global services market growth over 2021	Number of new center setups in 2021
0.51-0.53	8-10%	24

- Services delivery from MEA is becoming increasingly attractive given access to vast, young, and less competitive talent pools, favorable changes to business environment, and the enterprise desire for portfolio diversification
- The region saw 24 new center setups in 2021 (vs.19 in 2020) driven by strong regional and domestic demand
- Israel (Tel Aviv), South Africa (Cape Town, Johannesburg), and UAE (Dubai) are driving growth in the region; muted growth seen in Bahrain and Nigeria
- Traditionally leveraged for BP delivery, companies are now pivoting toward delivering technology services on account of strong talent pool and increasingly attractive government incentives (in a bid to reduce dependency on the oil industry)
- Going forward, the region is expected to continue the growth momentum in the backdrop of large untapped regional demand potential and strong government push to attract IT-BP companies in some oil-dependent economies of the Middle East (e.g., Saudi Arabia and the UAE)

Summary of key messages | Americas

Global services headcount in 2022 (million FTEs)	Global services market growth over 2021	Number of new center setups in 2021
1.2-1.4	5-7%	43

- Global services market in the Americas experienced moderate post-pandemic rebound growth, driven by increased enterprise preference for nearshoring (amid rising cost pressures), and improved bilingual talent availability, partially offset by uncertainty in the geopolitical and macroeconomic climate
- The region also reported significant increase in the number of new delivery centers in 2021 (43 vs. 29 in 2020), primarily focused on ITS, and digital services
- Canada (Montreal and Toronto), Colombia (Bogota and Medellin), Costa Rica (San Jose), and Mexico (Mexico City) drove the bulk of the growth in the region
- The majority growth in the region was driven by service providers that accounted for close to two-thirds of the new center setups
- Going forward, most locations in Latin America and the Caribbean will continue their moderate growth, underpinned by persistent inflation and political instability within the region. Canada is likely to experience high growth as a result of focused government investment

What's hot? Alternative locations worth considering

For IT services

Americas

Country	City
Canada	Quebec City
Colombia	Medellin
Mexico	Queretaro

Europe

Country	City
Ireland	Shannon Cork
Spain	Malaga
Portugal	Porto

MEA

Country	City
Saudi Arabia	Riyadh
Qatar	Doha
UAE	Dubai

APAC

Country	City
India	Vishakhapatnam Kochi
Vietnam	Hanoi
China	Xian

Source: Everest Group (2023)

What's hot? Alternative locations worth considering

For BP services

Americas

Country	City
Colombia	Barranquilla
US (Tier-3,4)	San Antonio, Tempe, Jacksonville
Guatemala	Guatemala City

Europe

Country	City
Spain	Seville
Poland	Poznan
Portugal	Braga

MEA

Country	City
Ghana	Accra
South Africa	Durban
Morocco	Casablanca

APAC

Country	City
India	Ahmedabad
Philippines	Alabang
Malaysia	George Town

Source: Everest Group (2023)

Given rising global uncertainties, it is imperative for organizations to be cognizant of geo-specific risks that could potentially affect the global service delivery landscape

APAC

Continued global headwinds imply lower GDP growth for many **Asia Pacific** (APAC) countries in 2023, as well as higher interest costs and slower fiscal consolidation. India remains relatively insulated from the inflation risk.

Geopolitical tensions are on the rise in **APAC due to the China-Taiwan trade war**, which could affect APAC and the world economy.

Sri Lanka and **Pakistan** face unprecedented economic and political risk, which is likely to continue.

Europe

Europe and **UK&I** have been battling record-level inflation and an energy crisis due to the ongoing conflict between Ukraine and Russia and the aftereffects of COVID-19.

Because **Poland** is in the immediate vicinity of military conflict, there is a higher level of uncertainty and a greater probability of disruption, which may increase macroeconomic instability and inflationary pressures.

The **Czech Republic, Romania**, and **Hungary** face the risk of an exchange rate crisis over the next year as fiscal and external challenges mount.

MEA

The **War in Ukraine** has exacerbated existing inflationary pressures in the region. Unemployment and food shortages were already affecting the geography and will continue to do so.

Barring the GCC nations and Israel, other locations in MEA such as **Egypt, Lebanon,** and **Nigeria** are likely to suffer from the rising energy prices.

Lebanon is currently experiencing the worst global economic crisis with soaring inflation, plummeting currency, and severe shortages of basic goods and services.

Americas

The **North America** economy has taken a recessionary turn with rising inflation and interest rates and declining consumption.

Organizations are cutting jobs across industries in the face of a potential recession, especially in **Canada**.

LATAM countries are facing political and economic instability with hyperinflation and high energy prices. **Brazil, Chile, and Colombia** have had political regime changes, while Argentina is dealing with high inflation and unemployment.

Call to action for workforce leaders

1. Re-evaluate your shoring mix to identify avenues to ease margin pressure
2. Future-proof your locations portfolio by expanding to tier-2/3 locations
3. Bigger is not always better; shift delivery center strategy to smaller and diverse
4. Likelihood of black swan events is increasing; flex workforce strategy and next-generation levers to increase resilience

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