



PricePoint: Q4 2012

Points to Consider in the Pricing of Outsourcing Services

Preview Deck

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- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies

Introduction

- PricePoint is a quarterly compendium of key demand- and supply-side trends impacting pricing in the ITO (both ADM and Infrastructure) and BPO (both voice and non-voice) deals. It is published by Everest Group's Pricing Assurance practice, which conducts pricing advisory engagements for large global buyers and providers of outsourcing services. PricePoint draws entirely from first-hand information and insights generated from:
 - “Live” advisory engagements
 - Analyst briefings and direct market conversations
 - Proprietary cost and transaction tracking tools
- PricePoint focuses on market developments in India and United States as the key offshore and onshore delivery locations for outsourced services. Other delivery locations are included as part of “featured research” whenever necessitated by market developments

What objectives does PricePoint serve?

- Supports (re)negotiation efforts
- Assists internal decision-making or calibration per market dynamics
- Serves as a potential thought-starter on unexplored areas for pricing or spend efficiency

What objectives does PricePoint not serve?

- Comprehensive benchmarking of client-specific resources / units / service levels or delivery metrics
- Customized guidance on optimizing contracted fee
- Specific peer intelligence

Table of contents

Topic	Page no.
Section 1: Pricing dynamics in outsourced IT services	6
• Pricing dashboard	7
• Demand-side analysis	8
• Supply-side analysis	10
• Key macro-economic factors	13
• Trends and future outlook	15
Section 2: Pricing dynamics in outsourced business process services	16
• Pricing dashboard	17
• Demand-side analysis	18
• Supply-side analysis	20
• Key macro-economic factors	22
• Trends and future outlook	24
Section 3: Featured research	25
• Philippines versus India pricing differential	26
• Trend of “pricing optics” strategy	32
Appendix	36
• Glossary of key terms	37
• PricePoint research calendar	39
• Additional research recommendations	40

Guide to interpreting pricing dashboard for outsourced IT and business process services

Area

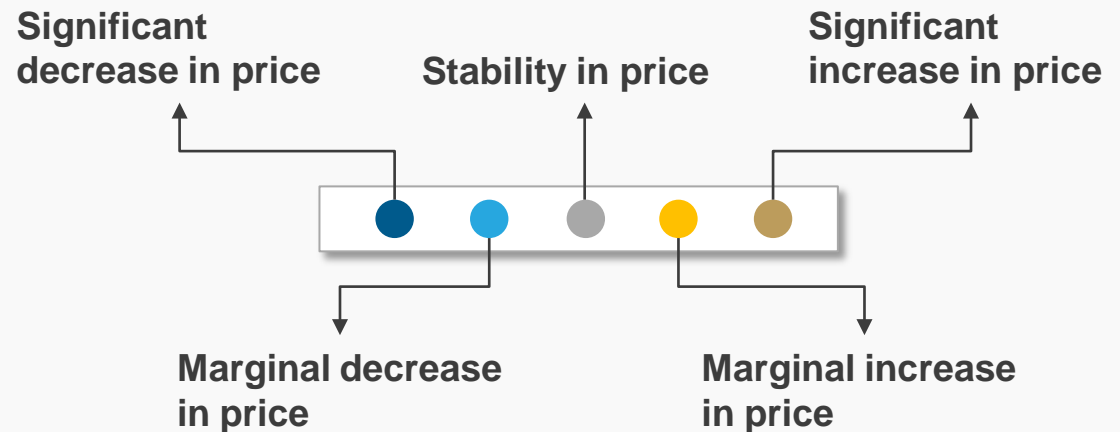
Impact of
price driver

Pricing implication symbols



These symbols represent impact of each price driver on overall pricing in isolation

Overall price
trend/outlook



These symbols represent the cumulative impact of all price drivers on overall pricing

Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q4 2012

Overall trend in Q4 2012



- Deal activity in Q4 XX.
- Pricing XX as evident from XX

Outlook for Q1 2013



- Demand is expected to XX in 2013, with increased XX. As a result, pricing is expected to XX

Dimension	Price Driver	Impact Q3 2012	Impact Q4 2012	Conclusion
Demand-side factors	Deal size			<ul style="list-style-type: none"> • In the previous quarter (Q3 2012), we assessed a marginal decline in overall demand but an unchanged value-mix • In Q4, the overall deal activity increased along with shift in value-mix to high-value deals. This uptick was primarily driven by demand for long-term transformational deals. XX (Refer to pages 8 and 9 for details)
	Deal volume			
	Value mix			
	New deal - renewal mix			
Supply-side factors	Resource utilization			<ul style="list-style-type: none"> • In the previous quarter, providers performed better on cost levers, however, margin declined • In Q4, despite margin pressure due to cost-side levers and INR appreciation against US\$, providers were able to maintain/improve margin. XX (Refer to pages 10 to 12 for details)
	Hiring mix			
	Overhead cost			
	Onshore-offshore mix			
	Financial performance			
Macro-economic factors	Inflation			<ul style="list-style-type: none"> • Operating cost inflation, although low, was slightly higher compared to the previous quarter • Slight appreciation in INR against US\$ also impacted service provider's margin (Refer to pages 13 and 14 for details)
	Forex rates			

Pricing dynamics in outsourced IT services

Snapshot

Demand-side factor (sample extract)

Cumulative size of ITO deals announced
US\$ billion



- The cumulative size of announced ITO deals XX in Q4 2012
- This was primarily due to XX
- We expect the demand for discretionary transformational project to XX in the long term

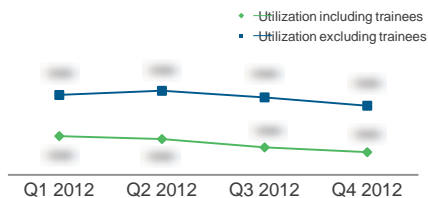
Total ITO deals announced
Number



- The magnitude of XX in deal volume was XX compared to that for cumulative deal size due to the following:
 - XX
 - XX
 - XX

Supply-side factors (sample extract)

Resource utilization



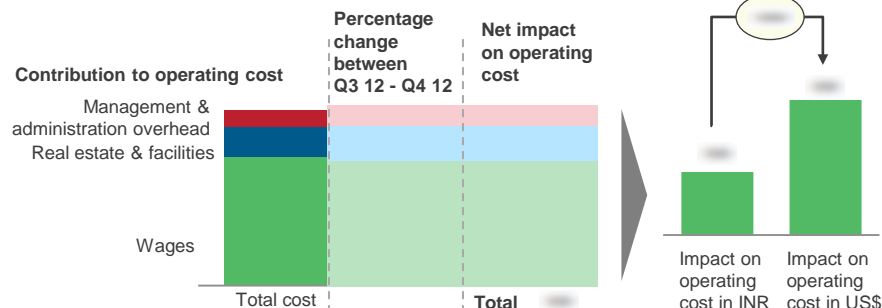
- In Q4, we witnessed XX in the average resource utilization for IT service providers. This was primarily due to:
 - XX
 - XX
 - XX

Hiring-mix



- As resource utilization XX in Q4, service providers hired more XX to replenish the reserve workforce, thereby, XX the share of freshers in hiring mix
 - XX
 - XX

Macro-economic factors (sample extract)



- Wage cost increased by XX% in Q4 2012 due to XX. In the near term, wage inflation is XX
- Real estate rentals XX in Q4 2012 due to XX. This led to XX% increase in the facilities costs
- Overall, operating costs of service providers increased by XX% in local currency (i.e., INR)
- However, INR XX against US\$ in Q4 2012
- Accounting for these currency fluctuations, net US\$ operating cost XX by XX% in Q4 2012

Trends and future outlook (sample extract)

Trend in blended FTE price at offshore (India) for ADM
US\$/hr/FTE



Trend in blended FTE price at onsite (U.S.) for ADM
US\$/hr/FTE



- On the buy-side, delays in / cancellation of some XX projects led to XX
- On the supply-side, revenue growth XX but favorable forex led to XX
- Most providers reported XX in pricing
- Overall, offshore and onsite pricing XX

- We expect the demand to XX in 2013.
- As highlighted earlier, demand outlook for XX initiatives is XX
- Providers' operating cost inflation is expected to XX
- Forward looking pricing cues, shared by most service providers, suggest XX
- Overall, pricing is expected to XX
 - XX
 - XX

Featured research Snapshot

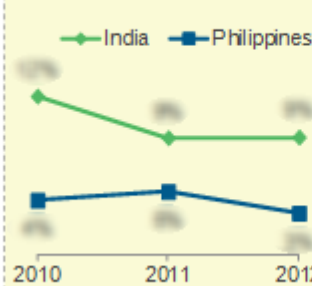
Philippines versus India Pricing Differential

Philippines vs. India
pricing: 2010
Indexed base = India price

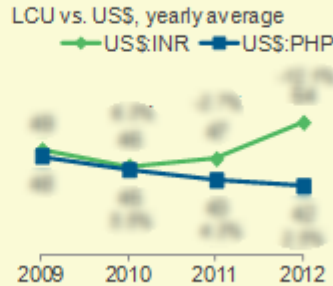


Macro factors impacting price

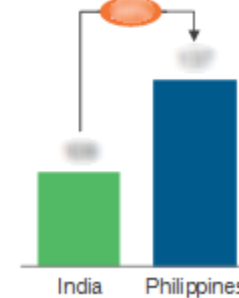
CPI Inflation: 2010-2012



Forex movement: 2010-2012
LCU vs. US\$, yearly average



Adjusted Philippines vs.
India pricing: 2013



**Recommended approaches to
adjust contracted rates for
forex fluctuations:**

- Absorption band approach
 - In this approach, XX
 - XX
- Cap & Collar approach
 - In this approach, XX
 - XX

Trend of “Pricing Optics” Strategy

Three “pricing optics” strategies commonly deployed by service providers (page 1 of 3)

Pricing optics management strategy #1: Leverage staffing mix

- Price cut offered: Lowering of the higher prices in the rate card (typically for technical lead and manager roles) which comprise only ~15% of the total staff

- Change in staffing mix: Provider increases deployment of freshers at junior level and also increases the share of junior resources in staffing mix



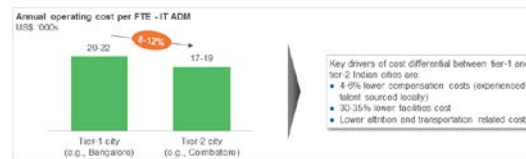
- Net impact: Supplier's spending is lowered marginally due to price cut and increased deployment of lower priced junior resources. However, the margin percentage is higher for junior roles and higher deployment of such resources improves overall margin

Three “pricing optics” strategies commonly deployed by service providers (page 2 of 3)

Pricing optics management strategy #2: Leverage tier-2 delivery locations

- Price cut offered: Provider offers to shift delivery from a tier-1 city, such as Bangalore, to a tier-2 city, such as Coimbatore and in return gives a slight price discount

- Change in cost: Operating cost reduces by 8-12% on account of lower costs in tier-2 cities as explained below



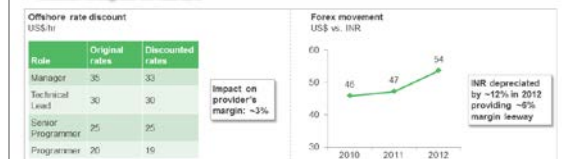
- Net impact: Decline in operating cost is higher compared to price cut, thereby giving a margin boost

Three “pricing optics” strategies commonly deployed by service providers (page 3 of 3)

Pricing optics management strategy #3: Managing the range of pricing in the rate card

- Price cut offered: Marginal lowering of prices at the low-end (e.g., for programmer) and high-end (e.g., for project manager)

- Change in overall price range: Reduction of the overall price range, creating the impression of a price reduction throughout the rate card



- Net impact: Seemingly reduced margin, which is actually offset by other favorable trends. For instance, in 2012, the INR depreciated by 12% against the US\$, the benefits of which outweigh the margin impact of the slight pricing decreases for select roles

PricePoint research calendar

Published Current

Topic	Release date
PricePoint Q1 2012 Update: Points to Consider in the Pricing of Outsourcing Services	September-2012
Webinar: ITO and BPO Pricing: What to Expect in 2012	September-2012
PricePoint Q2 2012 Update: Points to Consider in the Pricing of Outsourcing Services	November-2012
PricePoint: Q3 2012 – Points to Consider in the Pricing of Outsourcing Services	January-2013
Webinar: 3 Pricing Questions Everyone Is Asking	March-2013
PricePoint: Q4 2012 – Points to Consider in the Pricing of Outsourcing Services	April-2013
PricePoint: Q1 2013	Q2-2013
Webinar: Pricing trends	Q3-2013
PricePoint: Q2 2013	Q3-2013
PricePoint: Q3 2013	Q4-2013
Webinar: Pricing trends	Q1-2014

Appendix | Additional research recommendations

The following documents are recommended for additional insight into the topic covered in this research. The recommended documents either provide additional details on the topic or provide complementary content that may be of interest:

1. **Benchmarking for Good** ([EGR-2011-9-R-0599](#)); 2011. Though buyers of outsourcing services are increasingly adopting price benchmarking as a lever to optimize spend, we have observed that “quick-and-dirty” benchmarks often fail to provide the expected negotiating leverage. This viewpoint outlines some of the common challenges buyers need to be aware of in order to derive meaningful benchmarks
2. **Outsourced Portfolio Rationalization** ([EGR-2011-9-V-0585](#)); 2011. Large outsourcing arrangements are frequently plagued with complexities that can significantly undermine the outsourcing benefits. This viewpoint highlights a real-life client situation to describe how Everest Group’s proprietary “Outsourced Portfolio Rationalization” methodology helped unlock sourcing efficiencies

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