



PricePoint™: Q3 2013

Points to Consider in the Pricing of Outsourcing Services

Preview Deck

July-September 2013

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- | Benchmarking | Pricing, delivery model, skill portfolio
- | Peer analysis | Scope, sourcing models, locations
- | Locations | Cost, skills, sustainability, portfolio – plus a tracking tool
- | Tracking services | Service providers, locations, risk
- | Other | Market intelligence, service provider capabilities, technologies, contract assessment

¹ Banking, financial services, and insurance

Introduction

- | PricePoint is a quarterly compendium of key demand- and supply-side trends impacting pricing in the Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO) 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 U.S. 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, as per market dynamics
- | Serves as a potential thought-starter on unexplored areas of pricing or spend efficiency

What objectives does PricePoint not serve?

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

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

Area

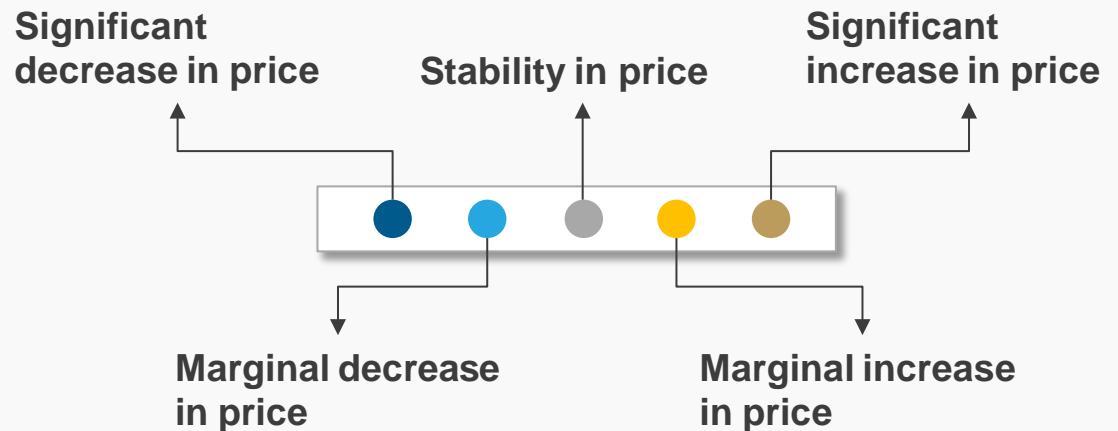
Impact of
price driver

Pricing implication symbols



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

Overall price
trend/outlook



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

Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q3 2013

Overall trend in Q3 2013



- | Deal activity in Q3 XX.
- | Pricing XX as evident from XX

Outlook for Q4 2013



- | Demand is expected to XX in Q4 2013. As a result, pricing is expected to XX

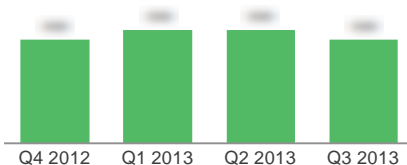
Dimension	Price driver	Impact Q2 2013	Impact Q3 2013	Conclusion
Demand-side factors	Deal size			<ul style="list-style-type: none"> In the previous quarter (Q2 2013), we assessed XX demand for simple outsourcing deals while ERP/SI (Enterprise Resource Planning / System Integration) demand was XX In Q3 2013, demand from all quarters witnessed XX – demand for discretionary as well as simple outsourcing deals was XX; and deal traction in U.S. as well as Europe 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' margins were XX on account of cost inflation being XX by higher resource utilization and XX In Q3 2013, although certain providers hiked wages, XX resource utilization XX service providers' margins (Refer to pages 10 and 11 for details)
	Overhead cost			
	Financial performance			
Macro-economic factors	Inflation			<ul style="list-style-type: none"> Operating costs XX as in the previous quarter However, significant XX in INR led to an overall XX in operating costs (Refer to pages 12 and 13 for details)
	Forex rates			

Pricing dynamics in outsourced IT services

Snapshot

Demand-side factor (sample extract)

Size of ITO deals announced
US\$ billion



- The size of announced ITO deals XX in Q3 2013
- This was primarily due to XX
- We expect the demand for discretionary transformational project to XX in the long term

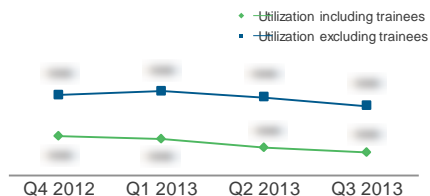
Total ITO deals announced
Number



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

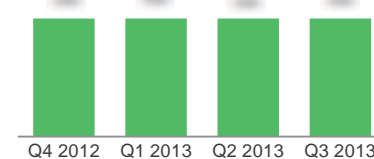
Supply-side factors (sample extract)

Resource utilization



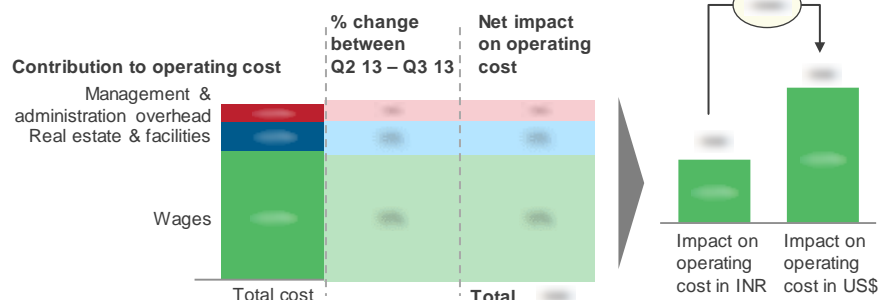
- In Q2, we witnessed XX in the average resource utilization for IT service providers. This was primarily due to:
 - XX
 - XX
 - XX

SG&A



- SG&A expenses, as a percentage of revenue incurred by providers, remained XX in Q3 2013
- XX
- XX
- XX

Macro-economic factors (sample extract)



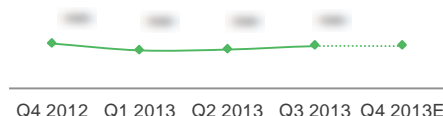
- Wage cost increased by XX% in Q3 2013 due to XX. In the near term, wage inflation is XX
- Real estate rentals XX in Q3 2013 due to XX. This led to XX% increase in the facilities costs
- Overall, operating costs of service providers increased by XX% in local currency (i.e., INR)
- However, INR XX against US\$ in Q3 2013
- Accounting for these currency fluctuations, net US\$ operating cost XX by XX% in Q3 2013

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
- 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

Pharma-BPO pricing comparison with standard-BPO functions (e.g., FAO/PO)

Price driver	Difference between standard back-office BPO and Pharma-BPO
Skill profile	
Operating margin	
Resource utilization	

Pricing model adoption by IT-BPO providers by Pharma-BPO processes

ILLUSTRATIVE

Processes	FTE-based pricing	Transaction-based pricing	Project-based pricing
Clinical Data Entry & Validation; Clinical Trial Management & set-up	●	● <i>E.g., per case and per trial</i>	●
Case intake triage & triage, case validation, and literary search	●	● <i>E.g., per case, per AE and per literary case</i>	●
Medical/Clinical Writing	●	● <i>E.g., per report, per document and per protocol</i>	●
Regulatory Operations	●	● <i>E.g., per dossier, per product and per country</i>	●
Bio-statistical programming & analysis	●	●	●

Four potential risks/challenges for Indian IT companies and risk mitigation strategies adopted up till now

Maintaining landed/ local FTE ratios	XXX
Wage hikes for landed resources	XXX
Higher visa processing fee	XXX
Develop local hiring strategy	XXX

Estimated impact on margin of Indian providers

1: Higher landed FTE salaries		2: Landed:local FTE ratio		3: Higher visa processing fee	
Expected increase in landed FTE salaries	XX	Landed:local FTE ratio requirement	XX	Expected increase in visa fee	XX
Visa worker wages in U.S., as percentage of total revenue	XX	Current ratio for the provider being analyzed	XX	Estimated annual H1B visa requirement	XX
Estimated reduction in corporate-level margin	XX	Local to landed FTE salary difference	XX	Increased cost	XX
		Estimated reduction in corporate-level margin	XX	Estimated reduction in margin	XX

Combined impact of the three drivers will be XX on the corporate-level margin. However, increasing the offshore leverage can negate some of these margin risks – increase in offshore leverage from XX to XX can limit the corporate-level margin impact to XX

PricePoint research calendar

Published Current

Topic	Release date
PricePoint™ Q2 2012 Update: Points to Consider in the Pricing of Outsourcing Services	November-2012
Webinar Deck: State of the Global Services Market: 2013 Predictions	January-2013
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 – Points to Consider in the Pricing of Outsourcing Services	June-2013
PricePoint™: Q2 2013 – Points to Consider in the Pricing of Outsourcing Services	September-2013
PricePoint™: Q3 2013	December-2013
Webinar: Pricing trends	Q1-2014
PricePoint™: Q4 2013	Q1-2014
PricePoint™: Q1 2014	Q2-2014

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](#)); 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](#)); 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

For more information on this and other researches published by Everest Group, please contact us:

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At a glance

- | With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of the next generation of global services
- | Through its practical consulting, original research, and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies, and management approaches
- | Established in 1991, Everest Group serves users of global services, providers of services, country organizations, and private equity firms in six continents across all industry categories

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