



PricePoint™: Q2 2014

Points to Consider in the Pricing of Outsourcing Services

Preview Deck
April-June 2014

Our research offerings for global services

Subscription information

- The full report is included in the following subscription(s)
 - **PricePoint™**
- In addition to published research, a subscription may include analyst inquiry, data cuts, and other services
- If you want to learn whether your organization has a subscription agreement or request information on pricing and subscription options, please contact us:

Corporate Headquarters

Office: +1-214-451-3000

info@everestgrp.com

European Headquarters

Office: +44-207-129-1318

unitedkingdom@everestgrp.com

Market Vista™

Global services tracking across functions, sourcing models, locations, and service providers – industry tracking reports also available

BFSI¹ information technology

PricePoint™

BFSI¹ business process

Finance & accounting

Healthcare information technology

Procurement

Information technology

Human resources

Cloud Vista™

Recruitment process

Global sourcing

Contact center

Locations Insider™

Transaction Intelligence

Custom research capabilities

- 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 United States, which serve as the key offshore and onshore delivery locations respectively for outsourced services. Other delivery locations are included as a 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

Table of contents

Topic	Page no.
Section I: Pricing dynamics in outsourced IT services	6
• Pricing dashboard	7
• Demand-side analysis	8
• Supply-side analysis	10
• Key macroeconomic factors	12
• Trends and future outlook	14
Section II: Pricing dynamics in outsourced business process services	15
• Pricing dashboard	16
• Demand-side analysis	17
• Supply-side analysis	19
• Key macroeconomic factors	21
• Trends and future outlook	23
Section III: Featured research	24
• Embedded software services	25
Appendix	34
• Glossary of key terms	35
• PricePoint research calendar	37
• References	38

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

Area

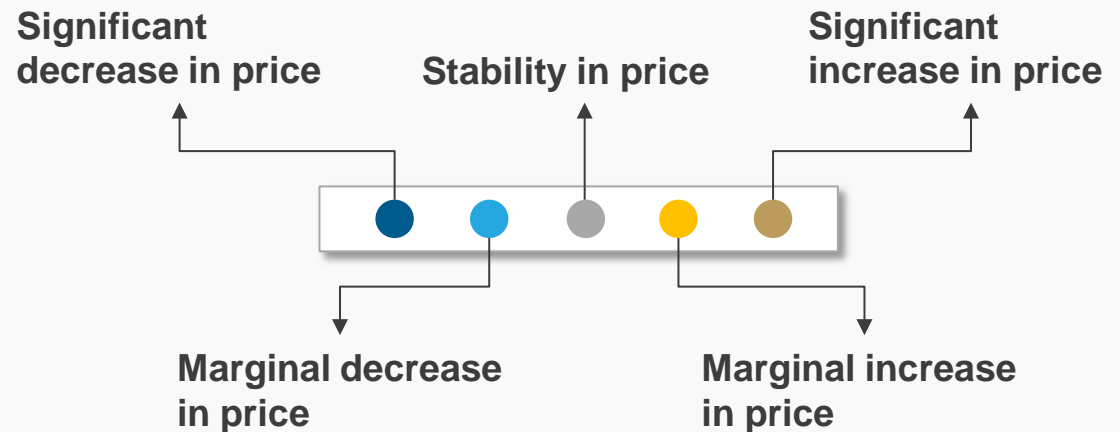
Impact of
price driver

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 Q2 2014

Overall trend in Q2 2014		<ul style="list-style-type: none"> Demand remained healthy in all the major geographies, including North America and XXX, due to XXX economic sentiments. XXX utilization and other XXX helped XXX cost inflation due to XXX. Overall, pricing XXX at onshore and offshore locations
Outlook for Q3 2014		<ul style="list-style-type: none"> Most of the service providers have a XXX pipeline for XXX as well as XXX projects. XXX operating costs, and accompanying margin XXX are expected to result in XXX

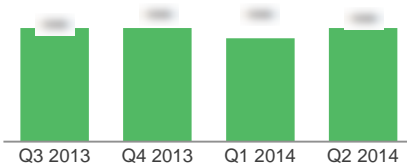
Dimension	Price driver	Impact Q1 2014	Impact Q2 2014	Conclusion
Demand-side factors	Deal size			<ul style="list-style-type: none"> Demand-side factors were XXX during Q2 2014 XXX economic activity in the major geographic regions helped XXX demand Sectors, such as banking and financial services, and XXX witnessed XXX demand. Though retail and XXX sectors registered a XXX in growth, they are expected to XXX in the coming quarters <i>(Refer to pages 8 and 9 for details)</i>
	Deal volume			
	Value mix			
	New deal – renewal mix			
Supply-side factors	Resource utilization			<ul style="list-style-type: none"> SG&A¹ expenses XXX while utilization levels XXX for most service providers Year-on-Year (YoY) revenue growth for Indian providers XXX, while global providers registered a significant XXX in YoY growth <i>(Refer to pages 10 and 11 for details)</i>
	Overhead cost			
	Financial performance			
Macro-economic factors	Inflation			<ul style="list-style-type: none"> Operating costs XXX at a significantly XXX rate as compared to the previous quarter due to the XXX Marginal XXX in INR further XXX operating costs <i>(Refer to pages 12 and 13 for details)</i>
	Forex rates			

Pricing dynamics in outsourced IT services

Snapshot

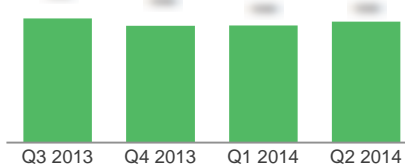
Demand-side factor (sample extract)

Size of ITO deals announced
US\$ billion



- The size of announced ITO deals XX in Q2 2014
- This was primarily due to XX
- We expect the demand for discretionary transformational project to XX in the long term

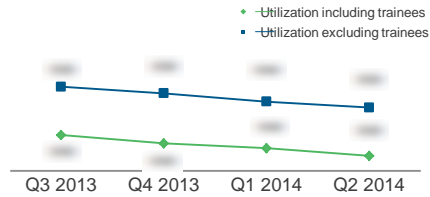
Total ITO deals announced
Number



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

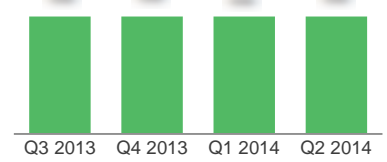
Supply-side factors (sample extract)

Resource utilization



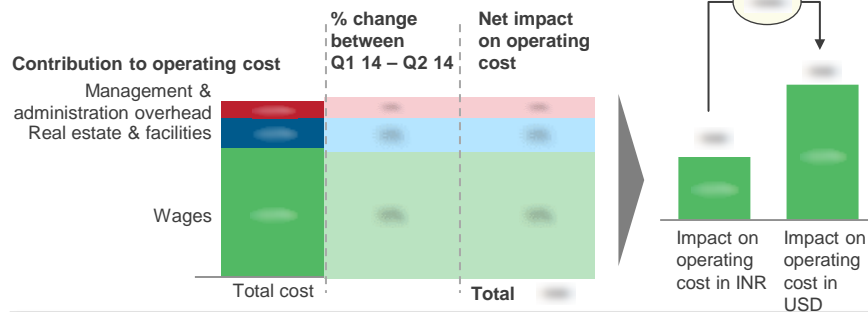
- In Q1, we witnessed XX in the average resource utilization for IT service providers. This was primarily due to:
 - XX
 - XX
 - XX

SG&A



- SG&A expenses, as a percentage of revenue incurred by providers, remained XX in Q2 2014
 - XX
 - XX
 - XX

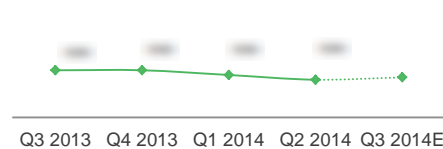
Macro-economic factors (sample extract)



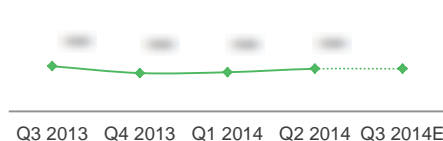
- Wage cost increased by XX% in Q2 2014 due to XX. In the near term, wage inflation is XX
- Real estate rentals XX in Q2 2014 due to XX. This led to XX% increase in the facilities costs
- Overall, operating costs of service providers increased by XX% in local currency (i.e., INR)
- However, INR XX against USD in Q2 2014
- Accounting for these currency fluctuations, net USD operating cost XX by XX% in Q2 2014

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

	Industrial & embedded software	Traditional applications
Market maturity	There are a XXX credible players in the market and its XXX towards XXX	XXX maturity market. XXX invariably have XXX AO offerings in this space
Requirement Analysis	Requires close XXX of XXX. Relies on XXX and XXX.	Requires XXX of XXX and technical specs. Outsourced to XXX at service providers
Skill Requirement	May rely on XXX level or XXX languages, directly working on XXX, XXX, etc.	XXX languages (e.g., XXX and XXX) or XXX software (e.g., XXX and XXX)
Project Workflow	Software needs to be integrated with a XXX layer. Hence, projects are extremely XXX	The typical XXX model of development is more XXX

Pricing Premium for embedded software services compared to generic ADM



PricePoint research calendar

Published Current

Topic	Release date
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 – Points to Consider in the Pricing of Outsourcing Services	December-2013
PricePoint™: Q4 2013 – Points to Consider in the Pricing of Outsourcing Services	June-2014
PricePoint™: Q1 2014 – Points to Consider in the Pricing of Outsourcing Services	August-2014
PricePoint™: Q2 2014 – Points to Consider in the Pricing of Outsourcing Services	November-2014
PricePoint™: Q3 2014	Q1-2015

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:

Sarthak Brahma, Vice President:
Rahul Gehani, Practice Director:
Vishwas Saxena, Senior Analyst:
Ricky Sundrani, Senior Analyst:

sarthak.brahma@everestgrp.com
rahul.gehani@everestgrp.com
vishwas.saxena@everestgrp.com
ricky.sundrani@everestgrp.com

Website: www.everestgrp.com | Phone: +1-214-451-3000 | Email: info@everestgrp.com



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

Dallas (Headquarters)

info@everestgrp.com
+1-214-451-3000

New York

info@everestgrp.com
+1-646-805-4000

Toronto

canada@everestgrp.com
+1-647-557-3475

London

unitedkingdom@everestgrp.com
+44-207-129-1318

Delhi

india@everestgrp.com
+91-124-284-1000

Stay connected

Websites

www.everestgrp.com
research.everestgrp.com



Twitter

@EverestGroup
@Everest_Cloud



Blog

SHERPAS
IN BLUE SHIRTS

www.sherpasinblueshirts.com