



## **PricePoint™: Q1 2015**

### Points to Consider in the Pricing of Outsourcing Services

Preview Deck  
January-March 2015

# Our research offerings for global services

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

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## ▶ BFSI<sup>1</sup> Business Process

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## ▶ Human Resources

## ▶ Recruitment Process

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## ▶ 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

### 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



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<sup>1</sup> Banking, financial services, and insurance

# Introduction

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- PricePoint is a quarterly compendium of key demand- and supply-side trends impacting pricing in Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO) deals. It is published by the Pricing Assurance practice at Everest Group that conducts pricing advisory engagements for large global buyers and providers of outsourcing services. PricePoint draws entirely from first-hand information and insights that have been generated from:
  - “Live” advisory engagements
  - Analyst briefings and direct market conversations
  - Proprietary cost- and transaction-tracking tools
  - Financial results published by service providers
- 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 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 contract fee
- Specific peer intelligence

**Note:** Due to delay in publishing of financial results by service providers, PricePoint reports are published with a time lag of one quarter

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

## Area

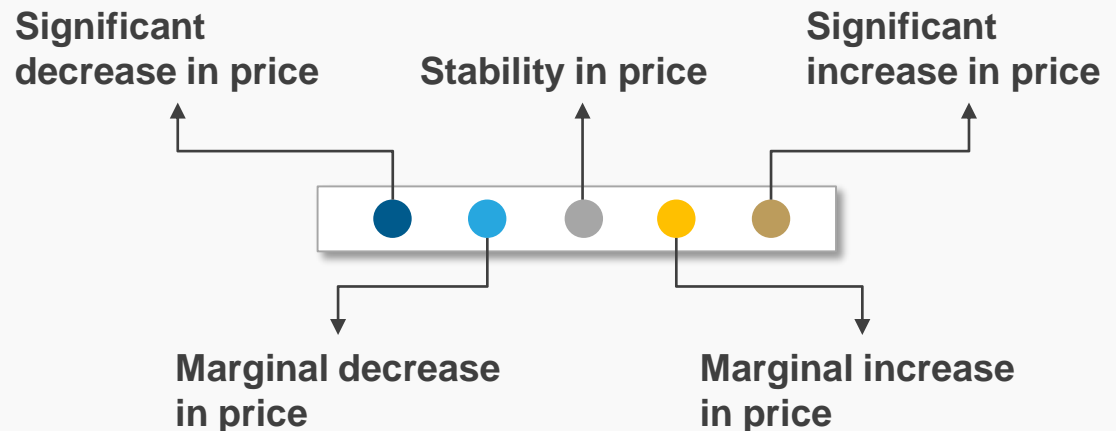
Impact of price driver

## 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 Q1 2015

### Overall trend in Q1 2015



- Buyer demand was XX. XX imposed XX on pricing, INR depreciation XX. Pricing XX at onshore and offshore locations

### Outlook for Q2 2015



- Deal pipeline is expected to XX. However, pricing would XX, given the XX

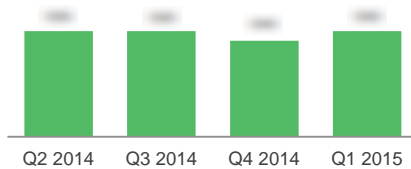
Dimension	Price driver	Impact Q4 2014	Impact Q1 2015	Conclusion
Demand-side factors	Deal size			<ul style="list-style-type: none"> <li>• Demand, in terms of deal volume and size of deals, XX in Q1 2015</li> <li>• XX witnessed a marginal uptick.</li> <li>• Although market sentiment XX, ADM deals XX</li> <li>• Growth was led by the XX region, while sectoral growth was led by XX, XX and XX</li> </ul> <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"> <li>• SG&amp;A expenses, as a percentage of revenue, XX; while utilization levels XX causing XX</li> <li>• Year-on-Year (YoY) revenue growth and margins XX for both Indian and Global service providers</li> </ul> <i>(Refer to pages 10 and 11 for details)</i>
	Overhead cost			
	Financial performance			
Macro-economic factors	Inflation			<ul style="list-style-type: none"> <li>• Operating costs XX as compared to the previous quarter</li> <li>• However, XX of INR vis-à-vis USD led to an overall XX in operating costs</li> </ul> <i>(Refer to pages 12 and 13 for details)</i>
	Forex rates			

# Pricing dynamics in outsourced IT services

## Snapshot

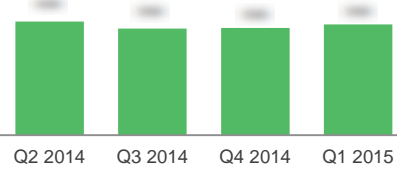
### Demand-side factor (sample extract)

Size of ITO deals announced  
US\$ billion



- Q1 2015 witnessed a XX in size of ITO deals
- This can be attributed to XX
- Deal size for XX, XX and XX sectors registered a healthy growth while that for XX declined

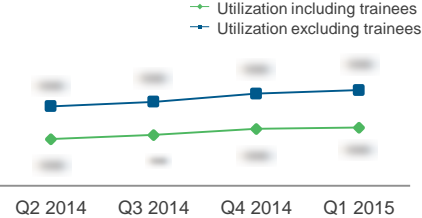
Total ITO deals announced  
Number



- Deal activity was XX particularly because of strong XX
- Geographically, ITO deals gained traction in XX region
- Growth was primarily driven by XX and XX sectors

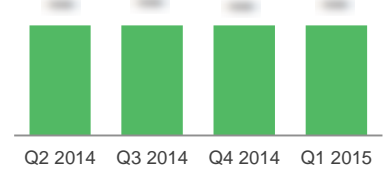
### Supply-side factors (sample extract)

Resource utilization



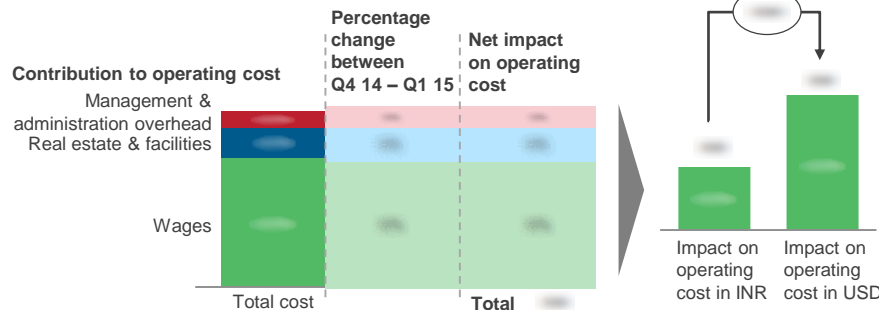
- Q1 2015 witnessed XX in utilization levels mainly because of XX in the quarter
- This imposes XX on the profit margins

SG&A



- SG&A expenses, as a percentage of revenue incurred by providers, XX in Q1 2015 mainly due to XX
- XX
- XX

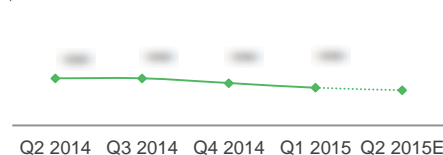
### Macro-economic factors (sample extract)



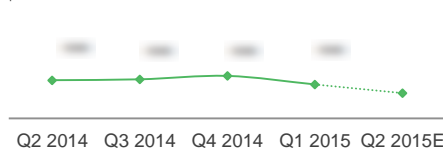
- Wage cost XX by XX% in Q1 2015. Wage inflation is expected to XX in next quarter due to XX
- Real estate rentals XX in Q1 2015 due to XX. The trend is expected to XX in the near future
- Overall, operating costs of service providers increased by XX% in local currency (i.e., INR)
- However, INR XX against USD in Q1 2015
- Accounting for these currency fluctuations, net USD operating cost XX by XX% in Q1 2015

### 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



- The buy-side factors were XX
- On the supply-side, XX improved where as XX reduced, giving providers XX
- For a top-line perspective, providers XX
- Overall pricing XX at offshore and onshore due to XX

- Demand from XX and XX should XX
- The XX from the XX sector is likely to XX
- XX will continue to gain traction in both applications and infrastructure
- Providers expect XX in the coming quarters, as client are turning towards XX and XX IT solutions
- Pricing at both onshore and offshore is expected to XX due to XX

# Featured research

## Snapshot

### Price variation between cloud-based and on-premise solutions

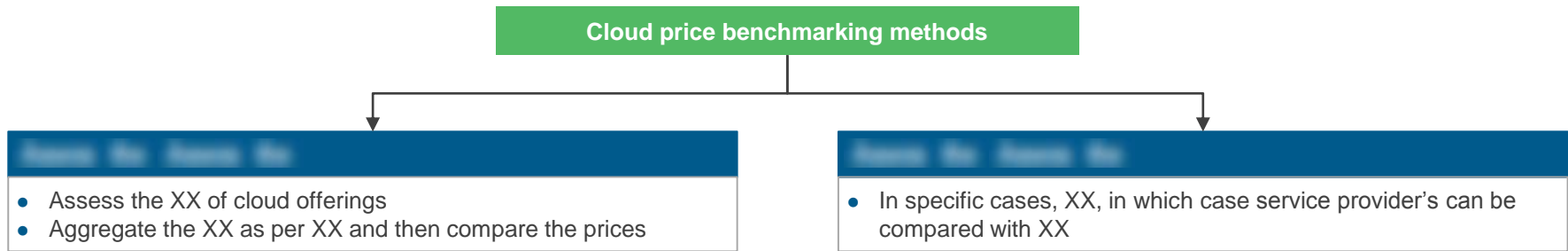


- Key takeaways:**
- The prices of cloud servers and storage are typically X-X% and X-X% XX than that of on-premise servers and storage, respectively
  - This price differential can be attributed primarily to three factors:
    - **XX**: Cloud service providers have relatively XX that accrue from XX
    - **XX**: XX for cloud service providers are comparatively XX as XX in a cloud-based model
    - **XX**: Cloud-based solutions have XX level of XX as opposed to a traditional IT Infrastructure environment, which might XX

### Key challenges in cloud price benchmarking

- Each cloud service provider, XX
- Each cloud offering is made up of varying XX, XX
- The definition of XX could be XX across providers
- Other factors where cloud XX

### Recommended approach for cloud price benchmarking





# PricePoint research calendar

Published Current

Topic	Release date
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 .....	December 2014
PricePoint™ Q3 2014 Points to Consider in the Pricing of Outsourcing Services .....	February 2015
Enterprise Cloud Adoption – Solving the Pricing Conundrum .....	March 2015
Webinar Deck: How Effectively Are You Managing Value Leakage in Your Sourcing Contracts? .....	April 2015
PricePoint™ Q4 2014 Points to Consider in the Pricing of Outsourcing Services .....	May 2015
PricePoint™ Q1 2015 Points to Consider in the Pricing of Outsourcing Services .....	July 2015
PricePoint™: Q2 2015 .....	Q3 2015
PricePoint™: Q3 2015 .....	Q4 2015
PricePoint™: Q4 2015 .....	Q1 2016

# Additional research recommendations

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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. **Enterprise Cloud Adoption – Solving the Pricing Conundrum** ([EGR-2015-4-R-1407](#)); 2015. Enterprises witness serious hurdles in rationally evaluating pricing across vast expanse of “non-standardized” cloud offerings. This white paper outlines the unique complexities associated with cloud pricing and the need for a robust evaluation framework to benchmark cloud services
2. **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
3. **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

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

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## About Everest Group

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