



PricePoint™: Q4 2015

Points to Consider in the Pricing of Outsourcing Services

October-December 2015 – Preview Deck

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- 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)
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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 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 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 contract fee
- Specific peer intelligence

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



Decrease price



Sustain price



Increase price

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

Overall price trend/outlook

Significant decrease in price

Stability in price

Significant increase in price



Marginal decrease in price



















Marginal increase in price

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 Q4 2015

Overall trend in Q4 2015		<ul style="list-style-type: none"> Q4 2015 witnessed a decline in the overall buyer demand putting downward pressure on pricing, though segment deals gained traction. Increases in regions of mature markets resulted in operating cost efficiency, while lower utilization and impact of Chinese banks led to decline in margins of Indian service providers.
Outlook for Q1 2016		<ul style="list-style-type: none"> Q4 2015 witnessed a decline in the overall buyer demand putting downward pressure on pricing, though segment deals gained traction. Increases in regions of mature markets resulted in operating cost efficiency, while lower utilization and impact of Chinese banks led to decline in margins of Indian service providers.

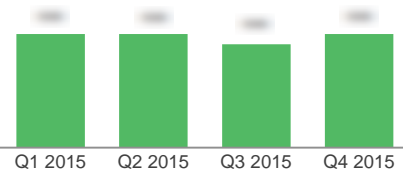
Dimension	Price driver	Impact Q3 2015	Impact Q4 2015	Conclusion
Demand-side factors	Deal size			<ul style="list-style-type: none">Buyer demand saw a significant decline this quarter, resulted in the large number of RFPs deals facing a pricing decline, although large value deals increased compared to previous quarters.ITP/IO and IT deals encountered some headwinds, while MSP deals registered a healthy uptick.Generally, strong BPO and public services sectors witnessed a decline. Geographically, North America had a soft quarter in terms of the <p>(Refer to pages 8 and 9 for details)</p>
	Deal volume			
	Function mix			
	New deal – renewal mix			
Supply-side factors	Overhead cost			<ul style="list-style-type: none">Buyer demand saw a significant decline this quarter, resulted in the large number of RFPs deals facing a pricing decline, although large value deals increased compared to previous quarters.ITP/IO and IT deals encountered some headwinds, while MSP deals registered a healthy uptick.Generally, strong BPO and public services sectors witnessed a decline. <p>(Refer to pages 10 and 11 for details)</p>
	Seat utilization			
	Financial performance			
Macroeconomic factors	Inflation			<ul style="list-style-type: none">Buyer demand saw a significant decline this quarter, resulted in the large number of RFPs deals facing a pricing decline, although large value deals increased compared to previous quarters.ITP/IO and IT deals encountered some headwinds, while MSP deals <p>(Refer to pages 12 and 13 for details)</p>
	Forex rates			

Pricing dynamics in outsourced IT services

Snapshot

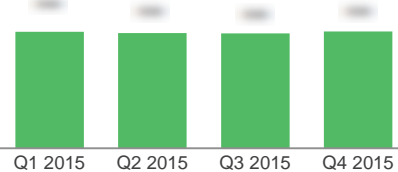
Demand-side factor (sample extract)

Size of ITO deals announced
US\$ billion



- Q4 2015 witnessed XX
- This may be attributed to XX
- Deal size for XX registered XX, while that for XX witnessed XX

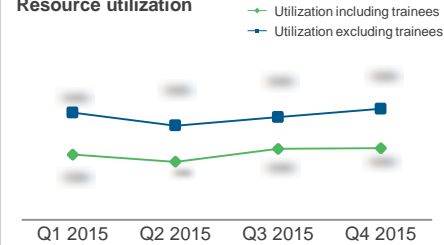
Total ITO deals announced
Number



- The demand for ITO services XXX in Q4 2015. Key contributing factors were:
 - XX
 - XX
 - XX

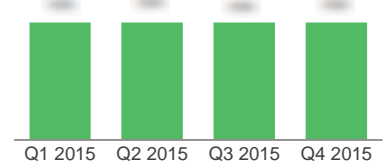
Supply-side factors (sample extract)

Resource utilization



- Q4 2015 continued to witness XX in the resource utilization levels over the previous quarters. This was primarily due to :
 - XX
 - XX
 - XX

SG&A



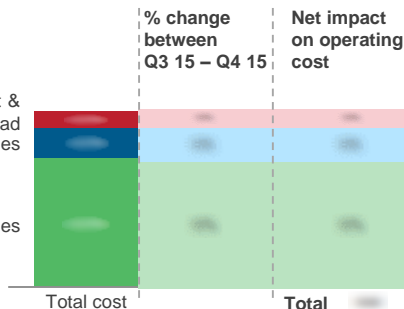
- SG&A expenses, as a percentage of revenue witnessed XXX in Q4 2015 as :
 - XX
 - XX
 - XX

Macro-economic factors (sample extract)

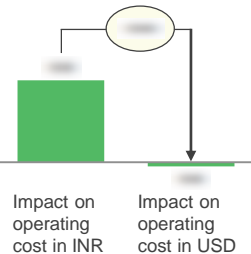
Contribution to operating cost

Management & administration overhead
Real estate & facilities

Wages

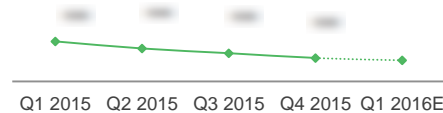


- Wage costs were XX by XX this quarter due to the XX
- Rentals XX in Q4 2015 due to XX
- Operating costs of went XX by XX% in local currency (i.e., INR), compared to XX% in the last quarter
- Also, INR witnessed a XX% depreciation against USD in Q4 2015
- Net operating costs for service providers XX by XX% in dollar terms

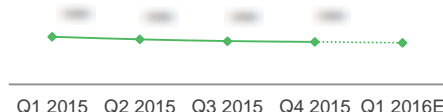


Trends and future outlook (sample extract)

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, overall demand was XXX as XXX
- On the supply-side, XXX improved marginally. Service providers' XXX to XXX led to XXX
- On macro front, XXX appreciated against XXX
- Pricing at offshore locations XXX

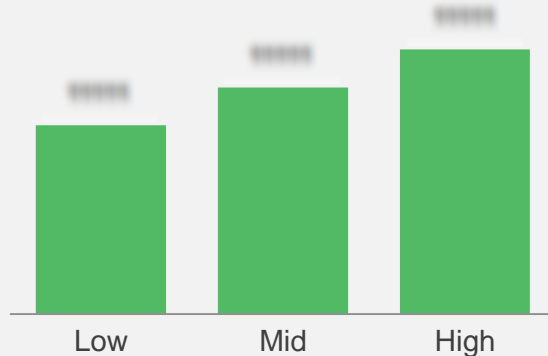
- ITO demands is expected to XXX due to XXX
- Service providers are likely to XXX
- While XXX looks to have XXX over the past few quarters, XXX might pose a challenge with XXX
- Pricing is expected to XXX going forward

Featured research

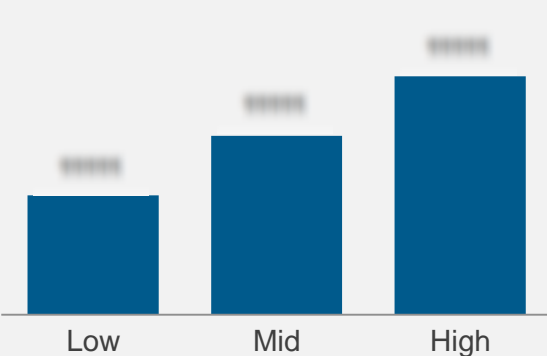
Snapshot

Market benchmarks

Typical fee-at-risk in outsourcing deals
Percentage of monthly fee



Typical cumulative pool percentage
Sum of severity weight across all critical SLAs



Key takeaways

- The typical range of fee-at-risk for contemporary deals is xx-xx%
- Factors driving the final agreement include
 - XXX
 - XXX
- Typically, the upper limit allocation pool percentage in most contemporary contracts is xx%
- Factors driving pool percentage include:
 - XXX
 - XXX

PricePoint research calendar

		Published	Current
Topic	Release date		
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 Points to Consider in the Pricing of Outsourcing Services	November 2015		
PricePoint™ Q3 2015 Points to Consider in the Pricing of Outsourcing Services	March 2016		
PricePoint™: Q4 2015	May 2016		
PricePoint™: Q1 2016	Q2 2016		
PricePoint™: Q2 2016	Q3 2016		

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. **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

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