



## **PricePoint™: Q1 2017**

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

January – March 2017 – Preview Deck

# Our research offerings for global services

## ▶ Market Vista™

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

## ▶ Application Services

## ▶ BPS | Banking Financial Services

## ▶ BPS | Healthcare & Life Sciences

## ▶ BPS | Insurance

## ▶ Catalyst™

## ▶ Cloud & Infrastructure

## ▶ Contact Center

## ▶ Digital Services

## ▶ Engineering Services

## ▶ Finance & Accounting

## ▶ Human Resources

## ▶ ITS | BFSI\*

## ▶ ITS | Healthcare & Life Sciences

## ▶ IT Services Forecaster™

## ▶ Locations Insider™

## ▶ PricePoint™

## ▶ Procurement

## ▶ Recruitment & Talent Acquisition

## ▶ Service Optimization Technologies

## ▶ 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

- This 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**

\* Banking, financial services, and insurance



### Corporate Headquarters

Office: +1-214-451-3000

[info@everestgrp.com](mailto:info@everestgrp.com)



### European Headquarters

Office: +44-207-129-1318

[unitedkingdom@everestgrp.com](mailto:unitedkingdom@everestgrp.com)



### Delhi Office

Office: +91-124-284-1000

[india@everestgrp.com](mailto:india@everestgrp.com)

# Introduction

---

- 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 the 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 the publication of financial results by service providers, PricePoint reports are published with a time lag of one quarter.

# Table of contents

| Topic   | Page no.  |
|---|-----------|
| <b>Section I: Pricing dynamics in outsourced IT services</b>                | <b>6</b>  |
| • Pricing dashboard   | 7         |
| • Demand-side analysis  | 8         |
| • Supply-side analysis  | 10        |
| • Key macroeconomic factors   | 12        |
| • Trends and future outlook   | 14        |
| <b>Section II: Pricing dynamics in outsourced business process services</b> | <b>15</b> |
| • Pricing dashboard   | 16        |
| • Demand-side analysis  | 17        |
| • Supply-side analysis  | 19        |
| • Key macroeconomic factors   | 21        |
| • Trends and future outlook   | 23        |
| <b>Section III: Featured research</b>                                       | <b>24</b> |
| • Transition Guidance for IT Outsourcing                                    | 25        |
| <b>Appendix</b>   | <b>33</b> |
| • Glossary of key terms   | 34        |
| • 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



**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 Q1 2017

### Overall trend in Q1 2017



Demand for IT services, mostly saw XXX. Utilization and SG&A expenses witnessed XXX. Indian providers' revenue growth XXX. Overall, pricing XXX

### Outlook for Q2 2017



Demand and size of deals is XXX. The digital sector XXX. Demand for XXX outsourcing is likely to XXX, which would XXX

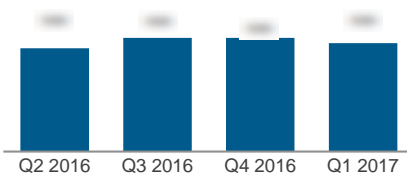
| Dimension             | Price driver          | Impact Q4 2016 | Impact Q1 2017 | Conclusion  |
|-----------------------|-----------------------|----------------|----------------|---|
| Demand-side factors   | Deal size             | ■              | ■              | <ul style="list-style-type: none"> <li>In Q1 2017, number of deals, more specifically the smaller deals XXX</li> <li>XXX led the XXX, while XXX was expectedly muted</li> <li>Deal mix (ADM, IO, and ERP/SI deals) XXX</li> <li>XXX sectors, which came across some headwinds in Q4 2016, recovered well in Q1 2017</li> </ul> <p><i>(Refer to pages XX and XX for details)</i></p> |
|                       | Deal volume           | ■              | ■              |   |
|                       | Value mix             | ■              | ■              |   |
|                       | New deal-renewal mix  | ■              | ■              |   |
| Supply-side factors   | Resource utilization  | ■              | ■              | <ul style="list-style-type: none"> <li>Utilization levels XXX in Q1 2017 as compared to the last quarter</li> <li>SG&amp;A cost saw XXX, primarily due to XXX</li> <li>Indian IT players had XXX as XXX</li> </ul> <p><i>(Refer to pages XX and XX for details)</i></p>   |
|                       | Overhead cost         | ■              | ■              |   |
|                       | Financial performance | ■              | ■              |   |
| Macroeconomic factors | Inflation             | ■              | ■              | <ul style="list-style-type: none"> <li>Q1 2017 witnessed very XXX, but due to lower depreciation in XXX, the costs were XXX</li> <li>Wage cost inflation in the U.S. XXX compared to previous quarter</li> </ul> <p><i>(Refer to pages XX and XX for details)</i></p>   |
|                       | Forex rates           | ■              | ■              |   |

# Pricing dynamics in outsourced IT services

## Snapshot

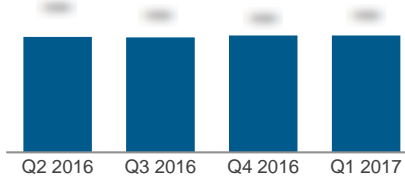
### Demand-side factor (sample extract)

Size of ITO deals announced  
US\$ billion



- Q1 2017 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

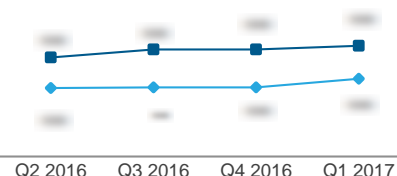


- The demand for ITO services XXX in Q1 2017. Key contributing factors were:
  - XX
  - XX
  - XX

### Supply-side factors (sample extract)

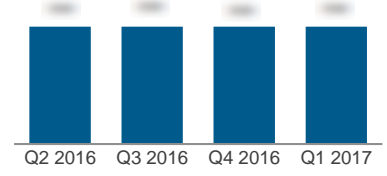
Resource utilization

— Utilization including trainees  
— Utilization excluding trainees



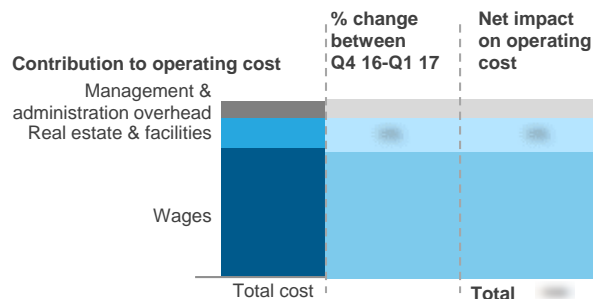
- Q1 2017 continued to witness XX in the resource utilization levels over the previous quarters. This was primarily due to :
  - XX
  - XX

SG&A



- SG&A expenses, as a percentage of revenue witnessed XXX in Q1 2017 as :
  - XX
  - XX
  - XX

### Macro-economic factors (sample extract)



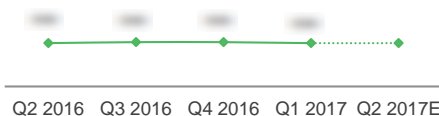
- Wage growth in India in Q1 2017 XX as compared to last quarter
- Office rentals XX in this quarter, as XX
- Overall, the operating costs went XX by XX% in INR, XX than what was observed in the last quarter
- INR appreciated XX against USD, XX in Q1 2017
- Overall, net operating costs for service providers XX by XX% in USD terms, accounting for XX

### 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

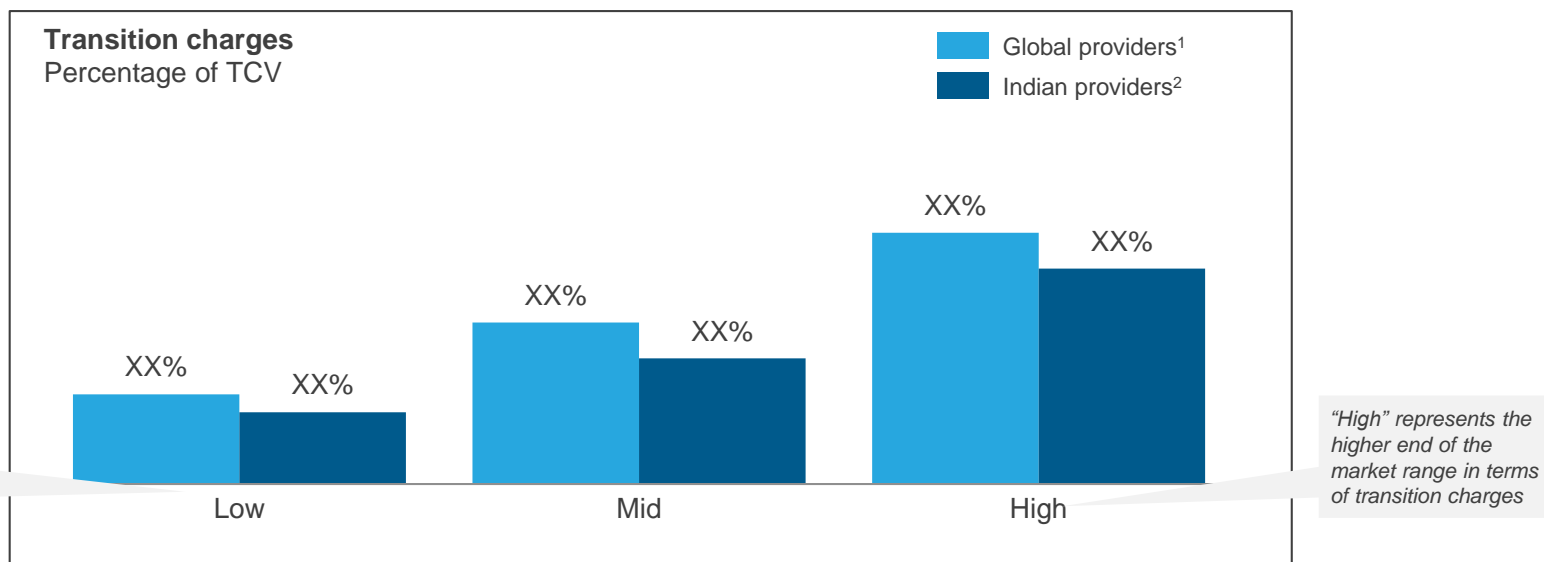


- Buyer demand XXX due to increased XXX
- On the supply-side, XXX experienced XXX Global players had a XXX
- Overall, Pricing XXX at both onshore and offshore locations this quarter

- Demand and distribution of deals in terms of size is expected to XXX in the coming quarters
- Geographically, North America is expected to XXX, while demand in APAC is XXX
- On the supply side, both revenue growth and the margins are expected to XXX
- Pricing is expected to XXX marginally at XXX

## Transition fee benchmarking (Deal level)

The transition charges for ITO service deals vary from XX%-XX% (of TCV) for global providers and XX-XX% (of TCV) for Indian providers



- The transition fee in terms of "USD per in-scope FTE" does not vary by deal tenure, but is significantly influenced by the geographic coverage, services in scope, technology complexity/maturity, and level of interlinkages
- Indian providers are as competitive as global providers when it comes to the service delivery of transition of ITO deals
- Transition timelines exhibit some standard characteristics such as deal size, complexity, towers in scope, language requirements, and number of geographies
- The duration of the transition of ITO deals usually lies between XX months and varies from deal to deal depending upon the complexity and scope

<sup>1</sup> Global providers: IBM, Capgemini, CSC, HP, and Atos

<sup>2</sup> Indian providers: Infosys, TCS, Cognizant, Wipro, and HCL



# PricePoint research calendar

|  |       | Published      | Current |
|--|-------|----------------|---------|
| Topic  |       | Release date   |         |
| 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 Points to Consider in the Pricing of Outsourcing Services | ..... | June 2016      |         |
| PricePoint™: Q1 2016 Points to Consider in the Pricing of Outsourcing Services | ..... | July 2016      |         |
| PricePoint™: Q2 2016 Points to Consider in the Pricing of Outsourcing Services | ..... | September 2016 |         |
| PricePoint™: Q3 2016 Points to Consider in the Pricing of Outsourcing Services | ..... | February 2017  |         |
| PricePoint™: Q4 2016 Points to Consider in the Pricing of Outsourcing Services | ..... | April 2017     |         |
| PricePoint™: Q1 2017 Points to Consider in the Pricing of Outsourcing Services | ..... | July 2017      |         |

# 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 or complementary content, that may be of interest:

1. **Windows Upgrades – Price Benchmarks ([EGR-2017-9-V-2099](#))**: 2017. Most enterprises try to optimize their IT infrastructure steady- state run costs. However, one-time transformation-related costs can be an equally significant component that tends to get ignored. This whitepaper explores the types of upgrades in end-user devices, various commercial models leveraged by service providers for upgrades, and price benchmarks for upgrading Windows on end-user devices
2. **Price Benchmarks for Upgrading Windows on End-user Devices ([EGR-2017-9-V-2141](#))**: 2017. For years, the three-tier governance structure had become standard in the proposals that are submitted to enterprise buyers. While the three-tier structure remains the same, the focus is shifting from governance being primarily a “delivery construct” to a “value enabler,” in line with the changing landscape. In this research, we analyze the enterprise expectations and how suppliers are addressing those asks by transforming their operating models. The focus is on: contemporary CIO expectations from the governance layer, innovative methods, and best practices across suppliers.
3. **The Obscure Choke Points in IT and BPO Services Contracting ([EGR-2017-9-V-2081](#))**: 2017. As a sign of outsourced IT and BPO services maturity, Everest Group has observed contract benchmarking clauses being diligently invoked at regular intervals. The focus of most benchmarking exercises tends to be on the directly “visible” levers. However, there are a number of levers that remain hidden and are often ignored, resulting in untapped optimization potential. This viewpoint outlines some of the common obscure “choke points” that buyers need to be aware of, in order to avoid significant value leakage in contracts.

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

**Sarthak Brahma**, Vice President:  
**Abhishek Sharma**, Vice President:  
**Ranjith Reddy**, Senior Analyst  
**Rahul Barwe**, Senior Analyst:  
**Aditya Nagori**, Analyst:

[sarthak.brahma@everestgrp.com](mailto:sarthak.brahma@everestgrp.com)  
[abhishek.sharma@everestgrp.com](mailto:abhishek.sharma@everestgrp.com)  
[ranjith.reddy@everestgrp.com](mailto:ranjith.reddy@everestgrp.com)  
[rahul.barwe@everestgrp.com](mailto:rahul.barwe@everestgrp.com)  
[aditya.nagori@everestgrp.com](mailto:aditya.nagori@everestgrp.com)

Website: [www.everestgrp.com](http://www.everestgrp.com) | Phone: +1-214-451-3000 | Email: [info@everestgrp.com](mailto:info@everestgrp.com)



## About Everest Group

Everest Group is a consulting and research firm focused on strategic IT, business services, and sourcing. We are trusted advisors to senior executives of leading enterprises, providers, and investors. Our firm helps clients improve operational and financial performance through a hands-on process that supports them in making well-informed decisions that deliver high-impact results and achieve sustained value. Our insight and guidance empowers clients to improve organizational efficiency, effectiveness, agility, and responsiveness. What sets Everest Group apart is the integration of deep sourcing knowledge, problem-solving skills and original research. Details and in-depth content are available at [www.everestgrp.com](http://www.everestgrp.com).

### Dallas (Headquarters)

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

### Bangalore

india@everestgrp.com  
+91-804-276-4533

### Delhi

india@everestgrp.com  
+91-124-496-1000

### London

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

### New York

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

### Toronto

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

## Stay connected

### Website



[www.everestgrp.com](http://www.everestgrp.com)

### Social Media



@EverestGroup



@Everest Group

### Blog

[Sherpas In Blue Shirts](http://www.sherpasinblueshirts.com)

[www.sherpasinblueshirts.com](http://www.sherpasinblueshirts.com)