



PricePoint™: Q1 2019

Points to Consider in the Pricing of Outsourcing Services
January-March 2019: Complimentary Abstract / Table of Contents

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- Accelerators™
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- Workshops

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



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 for outsourced services, respectively. 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 in internal decision-making or calibration as per the market dynamics
- Serves as a potential thought-starter in the 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 fees
- Specific peer intelligence

Note: Due to a <u>delay</u> in the publication 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

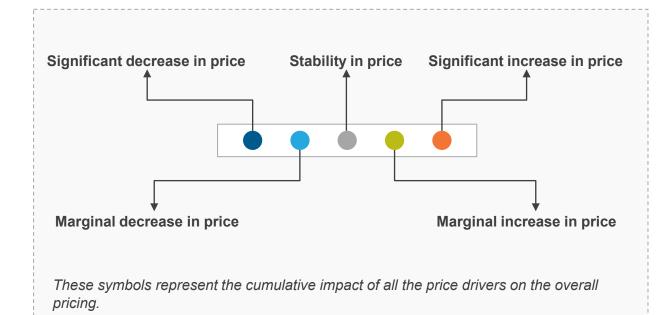
Impact of price drivers

Overall price trend/outlook

Pricing implication symbols



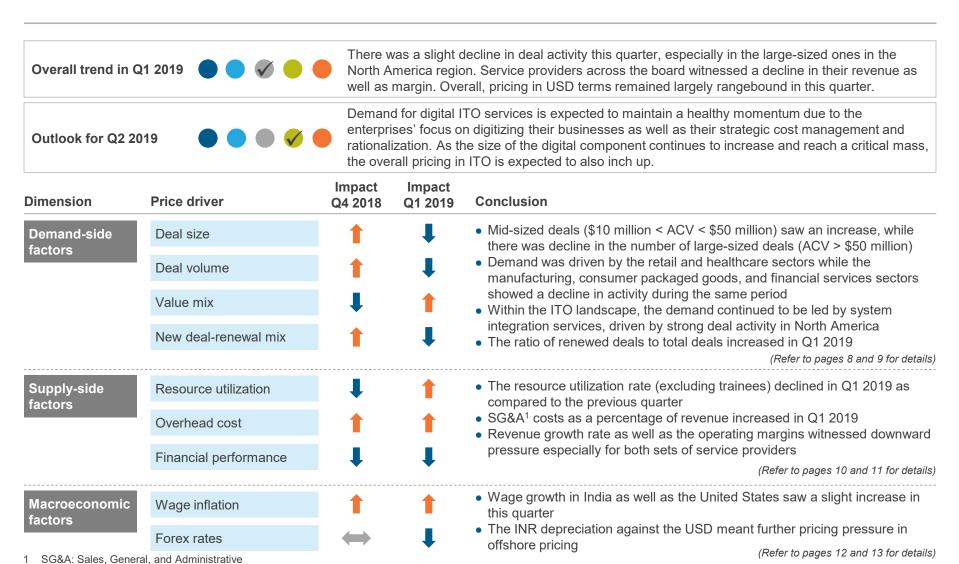
These symbols represent the impact of each price driver on the overall pricing in isolation.





Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q1 2019





Everest Group®

Factors affecting pricing dynamics in outsourced IT services

Price movement has been impacted by the movements in the following three levers (which have been analyzed in the previous slides)

Key macroeconomic factors

- Operating cost inflation in India and the United States
- Forex movement in India and the United States



Factors affecting the pricing of ITO services

In the next slide, the impact of the above-mentioned factors on the actual price movement for ITO deals at offshore and onsite locations have been captured. It also showcases the expected future outlook for Q2 2019.



Deal size mix

Featured research offers an analysis of the COLA clauses and their importance in outsourcing contracts

Cost of Living Adjustment (COLA) and its importance

If structured improperly, the COLA clause could potentially have a cascading and adverse effect on the total charges over the contract tenure



- Over the tenure of an outsourced contract. the service provider could incur changes in the delivery cost over time, caused primarily by wage inflation linked to the cost of the respective delivery locations
- · The COLA clause, called inflation adjustment in some contracts, provides service providers with the ability to adjust charges to reflect a fair increase in delivery costs
- · This adjustment is typically performed annually at the anniversary of the contract or individual Statement of Work (SoW)





Key principles of calculation

- · A standard mechanism for adjusting charges should include:
 - The milestone(s) at which adjusted
 - The index used for COLA
 - Sensitivity (parts of charge COLA applies)
- Formula to arrive at the ex
- The index used should be ea and reflect the correct inflation
- A historical view of index val reviewed before contract sign against other similar indices not skewed)

Indices typically used for key offshore geographies India, China, and the Philippines

Country	Index typically used	Issued by	12-month % change (Dec 2017-Dec 2018)
India	Consumer Price Index (CPI)	Ministry of Statistics and Programme Implementation, Government of India	5.24%
China	Consumer Price Index (CPI)	National Bureau of Statistics	1.91%
Philippines	Consumer Price Index (CPI)	Philippine Statistics Authority	5.1%



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Research calendar – PricePoint™

PricePoint reports PricePoint™ Q1 2015 Points to Consider in the Pricing of Outsourcing Services PricePoint™ Q2 2015 Points to Consider in the Pricing of Outsourcing Services PricePoint™ Q3 2015 Points to Consider in the Pricing of Outsourcing Services PricePoint™ Q4 2015 Points to Consider in the Pricing of Outsourcing Services PricePoint™ Q1 2016 Points to Consider in the Pricing of Outsourcing Services PricePoint™ Q2 2016 Points to Consider in the Pricing of Outsourcing Services PricePoint™ Q3 2016 Points to Consider in the Pricing of Outsourcing Services PricePoint™ Q4 2016 Points to Consider in the Pricing of Outsourcing Services PricePoint™ Q4 2017 Points to Consider in the Pricing of Outsourcing Services PricePoint™ Q1 2017 Points to Consider in the Pricing of Outsourcing Services PricePoint™ Q2 2017 Points to Consider in the Pricing of Outsourcing Services PricePoint™ Q3 2017 Points to Consider in the Pricing of Outsourcing Services PricePoint™ Q3 2017 Points to Consider in the Pricing of Outsourcing Services	November 2015 March 2016 June 2016
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PricePoint™ Q2 2017 Points to Consider in the Pricing of Outsourcing Services	April 2017
	July 2017
PricePoint™ Q3 2017 Points to Consider in the Pricing of Outsourcing Services	September 2017
	December 2017
PricePoint™ Q4 2017 Points to Consider in the Pricing of Outsourcing Services	March 2018
PricePoint™ Q1 2018 Points to Consider in the Pricing of Outsourcing Services	July 2018
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Note: For a list of all of our published PricePoint™ reports, please refer to our <u>website page</u>



Additional Pricing Assurance research references

The following documents are recommended for additional insights into the topic covered in this research. The recommended documents either provide additional details or complementary content, that may be of interest:

- **1.Evolution of Governance Models in the Digital Era** (<u>EGR-2017-9-V-2141</u>); 2017. For years, the three-tier governance structure had become a standard in the proposals that were 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 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
- 2. 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 white paper 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
- **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

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About Everest Group

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