

# PricePoint™: Q3 2020 – Points to Consider in the Pricing of Outsourcing Services

July-September 2020: Complimentary Abstract / Table of Contents



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- Accelerators™
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## 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

# Contents

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## Background of the report

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

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

Area

Pricing implication symbols

Impact of price drivers



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

Overall price trend/outlook



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

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

# Pricing dynamics in outsourced IT services

## Pricing dashboard – summary of pricing drivers in Q3 2020

**Overall trend in Q3 2020**



In Q3 2020, an overall positive market sentiment boosted demand for service providers with the upliftment of stringent lockdowns worldwide. The demand for ITO deals in this quarter rose significantly, with sizable increase in mid-sized and large deals due to a sharp demand for cloud migration, security, and next-generation services. Revenue growth rate recovered along with a rise in operating margins, backed by improved utilization, low attrition, and continuous cost optimization measures. Consequently, pricing improved at both offshore and onshore locations in this quarter

**Outlook for Q4 2020**



In the upcoming quarters, it is expected that enterprises might focus on upgrading their technology stack at the infrastructure, data, and application layers on the back of elevated demand for cloud modernization, security, and other digital services. By keeping a close watch on their operating costs, service providers are confident of handling upcoming disruptions in their outsourcing business in case countries reinforce lockdown due to second/third wave of COVID-19. This will further depend upon the anticipated COVID-19 vaccine and its distribution. Thus, the pricing for IT services is expected to improve in Q4 2020

Dimension	Price driver	Impact in Q2 2020	Impact in Q3 2020	Conclusion
Demand-side factors	Deal size	↑	↑	• The share of mid-sized (US\$10 million < ACV < US\$50 million) and large (ACV > US\$50 million) deals increased, whereas that of small (ACV <sup>1</sup> < US\$10 million) deals fell in Q3 2020 vis-à-vis Q2 2020
	Deal volume	↔	↑	• The overall deal count shot up significantly in this quarter as compared with the previous quarter
	Value mix	↔	↔	• The share of Infrastructure Outsourcing (IO) increased, ERP/SI1 deals fell, whereas that of ADM1 deals remained largely stagnant in this quarter vis-à-vis the last quarter
	New deal-renewal mix	↔	↓	• The share of new deals as a percentage of the total deals fell sharply in Q3 2020 as compared with Q2 2020 (Refer to pages 10 and 11 for details)
Supply-side factors	Resource utilization	↑	↓	• The resource utilization rate improved in Q3 quarter as compared with Q2 2020
	Overhead cost	↓	↑	• Overhead expenses as a percentage of revenue increased in Q3 2020 vis-à-vis Q2 2020
	Financial performance	↓	↑	• Both Indian as well as global service providers witnessed an improvement in revenue growth rate and operating margins as compared with the last quarter (Refer to pages 12 and 13 for details)
Macroeconomic factors	Inflation	↔	↔	• Wage growth across India recorded a marginal improvement, and that of US remained largely flat. Growth in facilities and real estate remained stagnant in this quarter
	Forex rates	↓	↓	• The average value of INR depreciated by 3.0% against USD in Q3 2020 (Refer to pages 14 and 15 for details)

1 ACV: Annual Contract Value; ERP/SI : Enterprise Resource Planning / System Integration; ADM: Application Development and Maintenance

## Factors affecting pricing dynamics in outsourced IT services

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



### Demand-side analysis

- Deal-size mix
- Number of ITO deals announced
- Value mix of ITO deals
- New deal-renewal mix in ITO



### Supply-side analysis

- Resource utilization
- Overhead cost (SG&A expenses)
- Revenue growth (YoY)
- Operating margin



### Key macroeconomic factors

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



Note: In the next page, the impact of the above-mentioned factors on the actual price movement for ITO deals at offshore and onsite locations has been captured. It also showcases the expected future outlook for Q4 2020



# Featured research offers guidance on Managed Risk and Compliance support and value-added services in Content Moderation services

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**Managed risk and compliance support | definitions**

Compliance support is a critical element of many large outsourcing arrangements


Key scope of services within managed risk and compliance support

Risk and security gap assessment
Ensuring operational effectiveness of controls
Collecting evidences
Design review of controls
Remediation support for identified gaps
Failure impact analysis
External audit support


Key delivery characteristics




Typically delivered during business hours only




The majority of effort being delivered from offshore locations such as India




Typically delivered by a combination of Level 1 and Level 3 level of resources




Key effort drivers – no. of sites, no. of content items (CIs), no. of compliances in scope, etc.




ISO 27001



SOC2



PCI DSS



HIPAA

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Guidance on managed risk and compliance support

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## Resiliency requirements | content moderation

Resiliency plays a crucial role to ensure overall wellness of agents in content moderation operations

Tower characteristics			
Tower	Content moderation		
Process inclusions	Video, image, and text content filtering		
Service model	Outsourced managed services		

Resiliency aspects	Standard resiliency	Stringent resiliency	Description
Resiliency coach	Yes Sized based on a span of 225-275 agents	Yes Sized based on a span of 100-150 agents	<ul style="list-style-type: none"><li>Develops and delivers support in accordance with the wellness/resilience plan</li><li>Conducts wellness/support sessions with vendor personnel on an as needed / as requested basis</li><li>Facilitates group wellness sessions to process challenges associated with work and personal life and to strengthen team cohesion</li><li>Develops curriculum for new hire and refresher trainings on resilience and deliver in accordance with the resilience plan and training plan</li></ul>
Wellness group sessions	Yes Close to 15-20 minutes per week	Yes Close to 45-60 minutes per week	<ul style="list-style-type: none"><li>Vendors typically provide monthly group coaching sessions for all agents</li><li>Sessions are team-specific and possibly gender-specific opt-out group sessions</li><li>Batch size is generally small and in line with applicable standards in mental health</li><li>An on-site clinician who is legally licensed/certified conducts these group sessions</li></ul>
One-on-one coaching support	Minimum of one meeting per week	Daily (minimum 15 minutes)	<ul style="list-style-type: none"><li>Stringent resiliency requirements mandate a minimum of 15 minutes daily for supplier agents requesting time for consultation</li><li>In standard resiliency scenario, one 1x1 session is mandatory on a weekly basis. Coaching sessions are generally for a minimum of thirty minutes</li><li>The supplier is also responsible for providing remote support to agents as part of the Employment Assistance Plan (EAP)</li></ul>

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Prerequisites in content moderation services

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# Research calendar

## PricePoint™

Published Current release

### PricePoint™ reports

### Release date

PricePoint™ Q1 2017 Points to Consider in the Pricing of Outsourcing Services	July 2017
PricePoint™ Q2 2017 Points to Consider in the Pricing of Outsourcing Services	September 2017
PricePoint™ Q3 2017 Points to Consider in the Pricing of Outsourcing Services	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
PricePoint™ Q2 2018 Points to Consider in the Pricing of Outsourcing Services	October 2018
PricePoint™ Q3 2018 Points to Consider in the Pricing of Outsourcing Services	February 2019
PricePoint™ Q4 2018 Points to Consider in the Pricing of Outsourcing Services	April 2019
PricePoint™ Q1 2019 Points to Consider in the Pricing of Outsourcing Services	September 2019
PricePoint™ Q2 2019 Points to Consider in the Pricing of Outsourcing Services	November 2019
PricePoint™ Q3 2019 Points to Consider in the Pricing of Outsourcing Services	March 2020
PricePoint™ Q4 2019 Points to Consider in the Pricing of Outsourcing Services	April 2020
PricePoint™ Q1 2020 Points to Consider in the Pricing of Outsourcing Services	July 2020
PricePoint™: Q2 2020 Points to Consider in the Pricing of Outsourcing Services	September 2020
<b>PricePoint™ Q3 2020 Points to Consider in the Pricing of Outsourcing Services</b>	<b>January 2021</b>

Note: For a list of all our published PricePoint™ reports, please refer to our [website page](#)





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