



# **PricePoint**

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

April-June (Q2), 2012 Update – Preview Deck

# Our research offerings for global services

## 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:
  - [info@everestgrp.com](mailto:info@everestgrp.com)
  - +1-214-451-3110

## Market Vista

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

Banking, financial services, insurance

Healthcare

Finance & accounting

Procurement

Information technology

Cloud Vista

Human resources

Recruitment process

Global sourcing

**PricePoint**

Service provider Intelligence

Transaction Intelligence

## Custom research capabilities

- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies

# Introduction

---

- PricePoint is a quarterly compendium of key demand-side and supply-side trends impacting pricing in the ITO (ADM and Infrastructure both) and BPO (voice and non-voice both) deals. It is published by Everest Group's Pricing Assurance practice, which has conducted pricing advisory engagements for large global buyers and providers of outsourcing services. PricePoint draws entirely from first-hand information and insights generated in:
  - “Live” advisory engagements
  - Analyst briefings and direct market conversations
  - Proprietary cost and transaction tracking tools
- PricePoint focuses on market developments in India and the United States as the key offshore and onshore delivery locations 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 per market dynamics
- Serves as a potential thought-starter on unexplored areas for pricing or spend efficiency

## **What objectives does PricePoint not serve?**

- Comprehensive benchmarking of client-specific resources / units / service levels or delivery metrics
- Customized guidance on optimizing contracted fee
- Specific peer intelligence

# Table of contents

Topic	Page no.
<b>Section 1: Pricing dynamics in outsourced IT services</b>	<b>6</b>
• Pricing dashboard	7
• Demand-side analysis	8
• Supply-side analysis	10
• Key macro-economic factors	13
• Trends and future outlook	15
<b>Section 2: Pricing dynamics in outsourced business process services</b>	<b>16</b>
• Pricing dashboard	17
• Demand-side analysis	18
• Supply-side analysis	20
• Key macro-economic factors	22
• Trends and future outlook	24
<b>Section 3: Featured research</b>	<b>25</b>
• ITO landscape in emerging Asia Pacific locations	26
• Assessment of tier-2 Indian cities for offshore IT delivery	32
<b>Appendix</b>	<b>37</b>
• Glossary of key terms	38
• Research calendar	40
• References	41

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

## Area

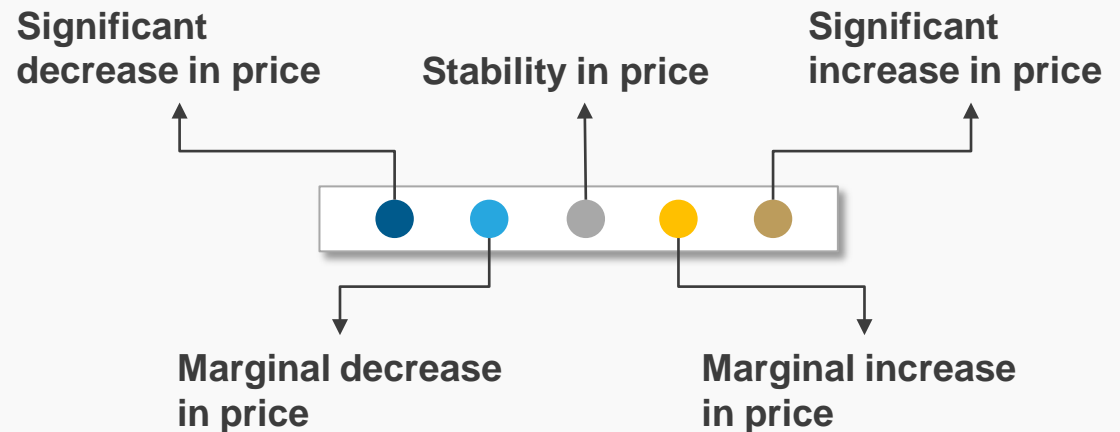
Impact of  
price driver

## Pricing implication symbols



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

Overall price  
trend/outlook



*These symbols represent the cumulative impact of all price drivers on overall pricing*

# Pricing dynamics in outsourced IT services

## Pricing dashboard – Summary of pricing drivers in Q2 2012

### Overall trend in Q2 2012:



- Continued weakness in buyer's discretionary spending exerted downward pressure on pricing, while favorable forex movement gave providers some margin leeway. Together, these factors led to XX in IT services pricing in Q2 2012

### Outlook for Q3 2012:



- Going forward, we expect improvement in demand driven by transformational initiatives. Pricing will XX

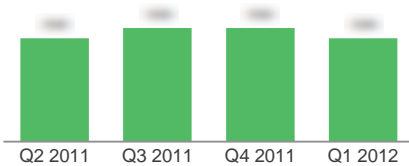
Dimension	Price Driver	Impact Q1 2012	Impact Q2 2012	Conclusion
Demand-side factors	Deal size			<ul style="list-style-type: none"> <li>In the previous quarter (Q1 2012), we had assessed strong demand for “cost take-out” initiatives with weakness in discretionary spending</li> <li>In Q2, the value-mix of deals remains unchanged. However, the overall demand (cumulative ACV) declined primarily due to project delays (Refer to slides 8 to 9 for details)</li> </ul>
	Deal volume			
	Value mix			
	New deal - renewal mix			
Supply-side factors	Resource utilization			<ul style="list-style-type: none"> <li>In the previous quarter, operating margin declined due to inefficiencies in management of cost-side levers and unfavorable forex movement</li> <li>While the supply-side factors in Q2 2012 sustain the high cost-structure, service provider margins were shielded due to favorable forex movement (i.e., appreciation in US\$ against INR) (Refer to slides 10 to 12 for details)</li> </ul>
	Hiring mix			
	Overhead cost			
	Onshore-offshore mix			
	Financial performance			
Macro-economic factors	Inflation			<ul style="list-style-type: none"> <li>Significant operating cost inflation in both, India and U.S., as annual wage hikes were implemented by most service providers</li> <li>However, the impact on margin was offset by appreciation in US\$ against INR (Refer to slides 13 to 14 for details)</li> </ul>
	Forex rates			

# Pricing dynamics in outsourced IT services

## Snapshot

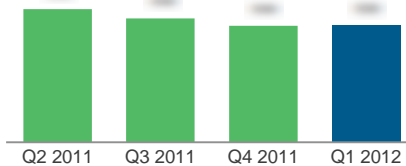
### Demand-side factor (sample extract)

Cumulative size of ITO deals announced  
US\$ billion



- Contrary to cyclicity, the cumulative size of announced ITO deals XX in Q2:2012
- The decline was primarily due to XX
- We expect the demand for discretionary transformational project to XX in the long term

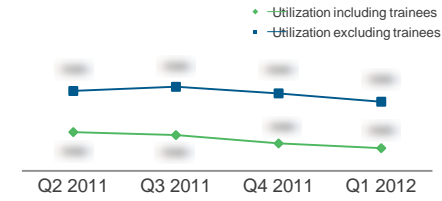
Total ITO deals announced  
Number



- The magnitude of XX in deal volume was lower compared to that for cumulative deal size due to the following:
  - XX
  - XX
  - XX

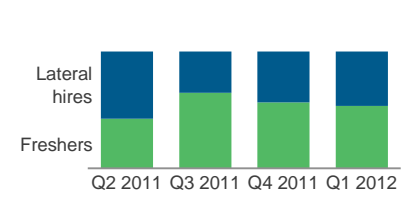
### Supply-side factors (sample extract)

Resource utilization



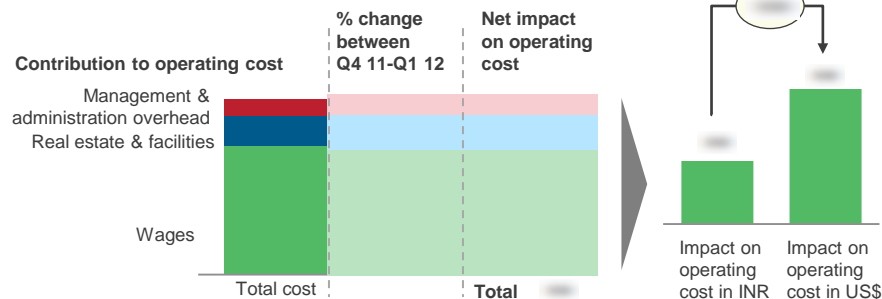
- Despite marginal improvement in gross resource utilization (i.e., including trainees), the current levels are still 2-4%, lower than optimal due to the following:
  - XX
  - XX

Hiring-mix



- As predicted in our previous report, lateral hiring increased as providers try to differentiate their value proposition by XX
- Providers are also in process of increasing their onsite presence by hiring laterally
- Going forward, we expect XX

### Macro-economic factors (sample extract)



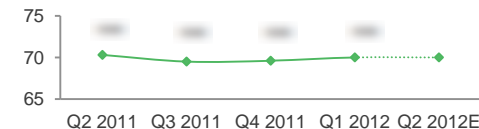
- Wage cost increased by XX% in Q2:2012 due to XX. In the near term, wage inflation is XX
- Real estate rentals XX in Q2:2012 due to XX. This led to XX% increase in the facilities costs
- Overall, operating costs of service providers increased by XX% in local currency (i.e., INR)
- However, INR depreciated (6.3%) against US\$ in Q2:2012
- Accounting for these currency fluctuations, net US\$ operating cost decreased by XX% in Q2:2012

### 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, delays in / cancellation of some discretionary projects led to XX
- On the supply-side, revenue growth slowed but favorable forex led to XX
- Most providers reported XX in pricing
- Overall, offshore and onsite pricing XX

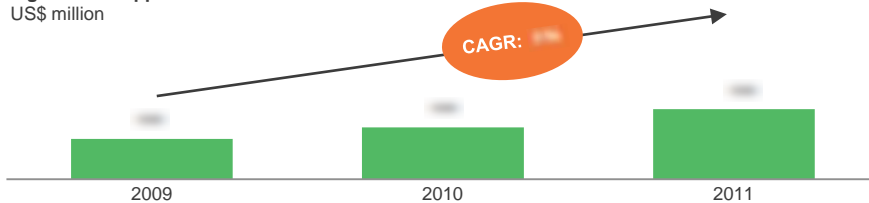
- We expect the demand to XX in Q3:2012.
- As highlighted earlier, demand outlook for transformational initiatives is XX
- Providers' operating cost inflation is expected to XX
- Forward looking pricing cues, shared by most service providers, suggest XX
- Overall, pricing is expected to XX
- XX
- XX

# IT outsourcing landscape in emerging Asia Pacific locations

## Snapshot

### Source of demand (sample extract)

Figure 1: Philippine's ITO market  
US\$ million



#### Key takeaways

- The IT outsourcing market<sup>1</sup> in APAC countries, excluding India and China (i.e., Philippines, Malaysia, Hong Kong, and Indonesia), is currently in a nascent/emerging phase
  - Amongst these countries, the Philippines has the largest market XX
  - Malaysia's market is XX
  - Hong Kong has a sizeable XX
  - Indonesia is a relatively XX
  - XX

### Supply side factors

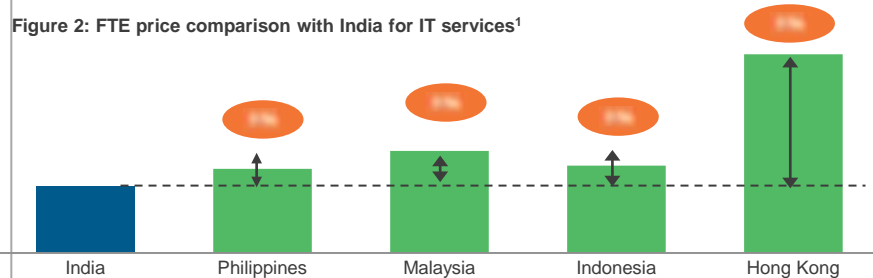
#### Key skills/functions outsourced

Location	Prevalent skills/functions
The Philippines	XX
Malaysia	XX
Indonesia	XX
Hong Kong	XX

#### Key takeaways

- Application Development & XX are the key services provided from these APAC countries. For example, more than XX% of the Philippine's IT exports are generated from XX
- Emerging areas expected to drive growth are XX

Figure 2: FTE price comparison with India for IT services<sup>1</sup>



#### Key takeaways

- FTE-billing rates in the highlighted APAC countries are higher than those in India [refer to Figure 2]. However, other factors contribute to demand for these delivery locations:
  - The Philippines: XX
  - Malaysia: XX
  - Hong Kong: XX
  - XX

#### Service provider activity

- Therefore, service providers are expanding their delivery footprint in APAC countries to enhance their global delivery network and tap the regional market
  - XX
  - XX
  - XX
- Apart from the Global and Indian service providers, key local players operating in the region are:
  - XX
  - XX
  - XX
- From an operating cost standpoint for service providers, the four countries have similar ordering as for pricing, i.e., XX
  - XX
  - XX
  - XX
  - XX



# Appendix | 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. **Price Benchmarking - Time to Take a Hike?** ([EGR-2011-9-V-0626](#)); 2011. It is common knowledge that pricing of IT outsourcing services dipped during 2009-2010 on account of substantial pressure from buyers hit by global recession. Not only did they sign new deals at lower price points, they even renegotiated the existing relationships at substantially discounted rates. This viewpoint highlights three common arguments that support a price increase. It also examines the rationale behind each argument and whether it should practically lead to a price hike or not
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:

**Sarthak Brahma**, Practice Director:

[sarthak.brahma@everestgrp.com](mailto:sarthak.brahma@everestgrp.com)

**Rahul Gehani**, Practice Director:

[rahul.gehani@everestgrp.com](mailto:rahul.gehani@everestgrp.com)

**Anuj Sukhlecha**, Senior Analyst:

[anuj.sukhlecha@everestgrp.com](mailto:anuj.sukhlecha@everestgrp.com)

## Everest Group

Two Galleria Tower  
13455 Noel Road, Suite 2100  
Dallas, TX 75240

Phone: +1-214-451-3110

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

# Everest Group

## Leading clients from **insight** to **action**

---

Everest Group is an advisor to business leaders on the next generation of global services with a worldwide reputation for helping Global 1000 firms dramatically improve their performance by optimizing their back- and middle-office business services. With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of global services in their pursuits to balance short-term needs with long-term goals. Through its practical consulting, original research, and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies, and management approaches. Established in 1991, Everest Group serves users of global services, providers of services, country organizations, and private equity firms in six continents across all industry categories. For more information, please visit [www.everestgrp.com](http://www.everestgrp.com) and [research.everestgrp.com](http://research.everestgrp.com).

### Dallas (Corporate Headquarters)

[info@everestgrp.com](mailto:info@everestgrp.com)  
+1-214-451-3000

### Toronto

[canada@everestgrp.com](mailto:canada@everestgrp.com)  
+1-416-865-2033

### India / Middle East

[india@everestgrp.com](mailto:india@everestgrp.com)  
+91-124-496-1000

### New York

[info@everestgrp.com](mailto:info@everestgrp.com)  
+1-646-805-4000

### London

[unitedkingdom@everestgrp.com](mailto:unitedkingdom@everestgrp.com)  
+44-207-129-1318

---

### Stay connected

#### Websites



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

#### Twitter



@EverestGroup  
@Everest\_Cloud

#### Blogs



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