



Topic: Points to Consider in the Pricing of Outsourcing Services

PricePoint

July-September (Q3), 2012 Update – Preview Deck

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- 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

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

Area

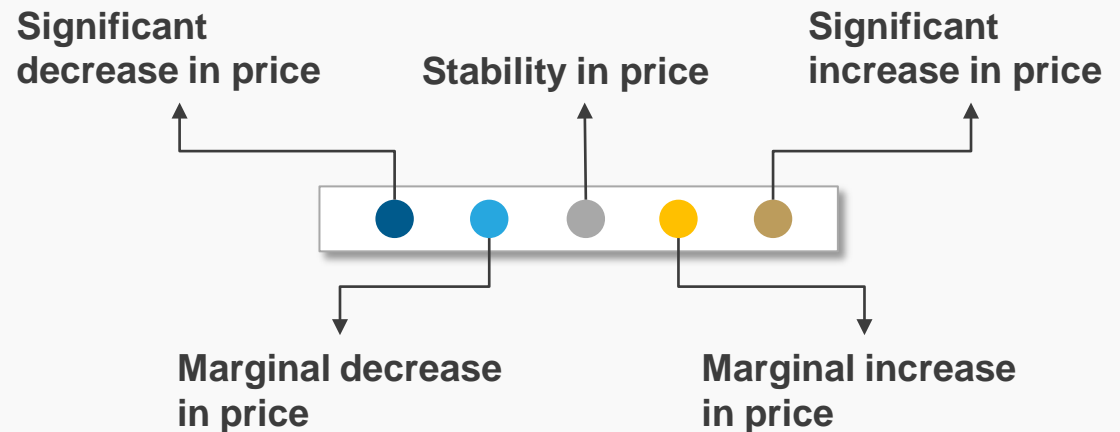
Impact of
price driver

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 Q3 2012

Overall trend in Q3 2012:



- Though deal activity shows signs of picking-up, we did not observe significant deal signings . Pricing XX in Q3 because of XX and XX reasons

Outlook for Q4 2012:



- Going forward, we expect the currently visible traction in transformational deals to result in demand improvement, which is likely to drive price XX

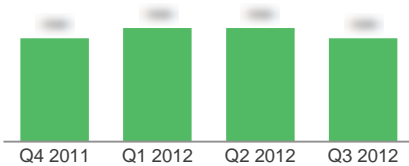
Dimension	Price Driver	Impact Q2 2012	Impact Q3 2012	Conclusion
Demand-side factors	Deal size			<ul style="list-style-type: none"> In the previous quarter (Q2 2012), we had assessed strong demand for “cost take-out” initiatives with weakness in discretionary spending In Q3, the value-mix of deals remains unchanged. However, the overall demand (cumulative ACV) declined primarily due to project delays (Refer to pages 8 to 9 for details)
	Deal volume			
	Value mix			
	New deal - renewal mix			
Supply-side factors	Resource utilization			<ul style="list-style-type: none"> In the previous quarter, operating margin declined due to inefficiencies in management of cost-side levers and unfavorable forex movement In Q3, providers performed better on cost levers (higher utilization, lower SG&A, XX and XX). Margin XX in comparison to Q2, implying XX in prices (Refer to pages 10 to 12 for details)
	Hiring mix			
	Overhead cost			
	Onshore-offshore mix			
	Financial performance			
Macro-economic factors	Inflation			<ul style="list-style-type: none"> Marginal operating cost inflation in both, India and United States due to increase in salary costs However, the impact on margin was offset by depreciation in INR against USD (Refer to pages 13 to 14 for details)
	Forex rates			

Pricing dynamics in outsourced IT services

Snapshot

Demand-side factor (sample extract)

Cumulative size of ITO deals announced
US\$ billion



- The cumulative size of announced ITO deals XX in Q3:2012
- This was primarily due to XX
- We expect the demand for discretionary transformational project to XX in the long term

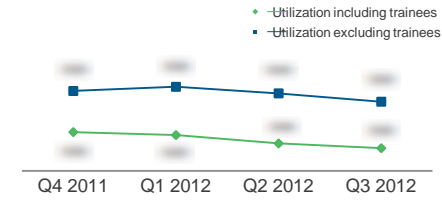
Total ITO deals announced
Number



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

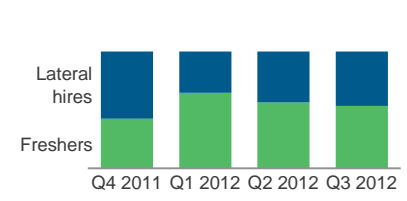
Supply-side factors (sample extract)

Resource utilization



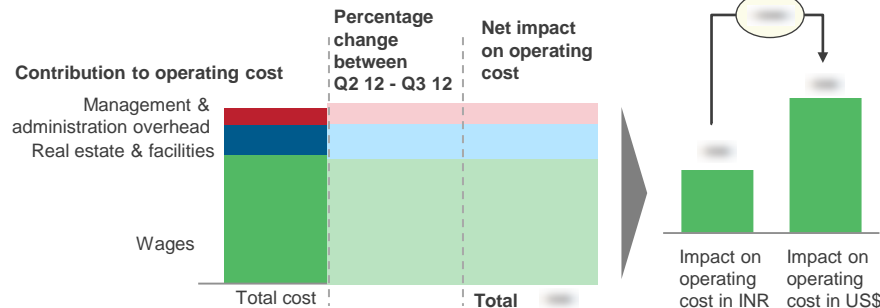
- In Q3, we witnessed XX in resource utilization due to:
 - XX ramp-ups in newly contracted deals
 - XX deals where ramp-ups were delayed in Q2 were pushed through in this quarter, thereby XX

Hiring-mix



- As resource utilization XX in Q3, service providers hired more XX to replenish the reserve workforce, thereby, XX the share of freshers in hiring mix
- Significant deal ramp-ups are expected leading to increased XX hiring in Q4

Macro-economic factors (sample extract)



- Wage cost increased by XX% in Q3:2012 due to XX. In the near term, wage inflation is XX
- Real estate rentals XX in Q3:2012 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 XX against US\$ in Q3:2012
- Accounting for these currency fluctuations, net US\$ operating cost XX by XX% in Q3:2012

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



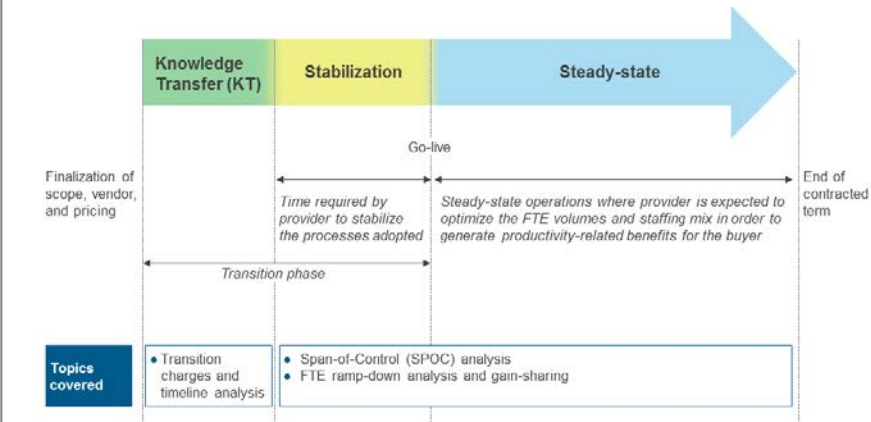
- On the buy-side, delays in / cancellation of some discretionary projects led to XX
 - On the supply-side, revenue growth slowed but favorable forex led to XX
 - Most providers reported XX in pricing
- Overall, offshore and onsite pricing XX

- We expect the demand to XX in Q4:2012.
- 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

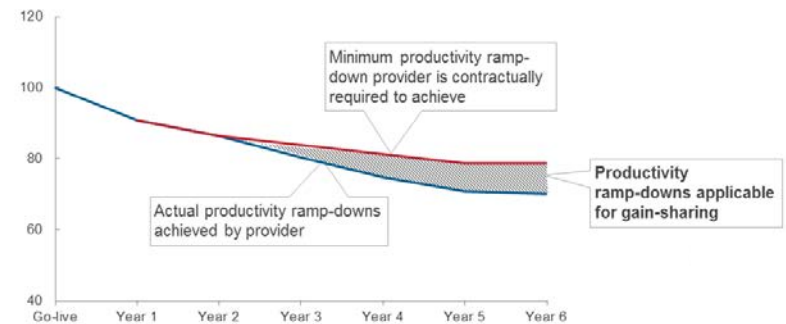
Featured research

Snapshot

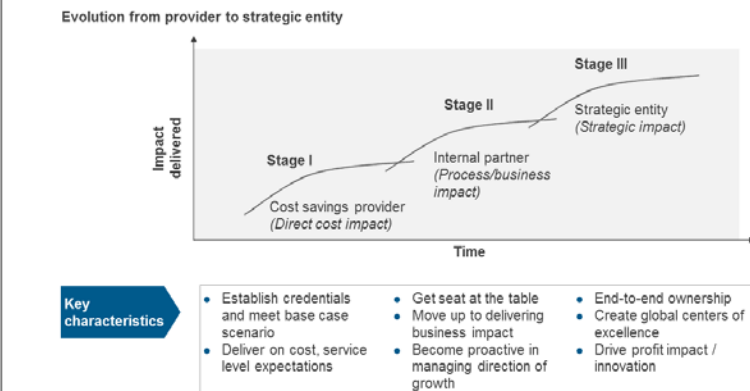
Outsourcing engagement phases



Typical productivity related gain-share arrangement
Base FTE count = 100



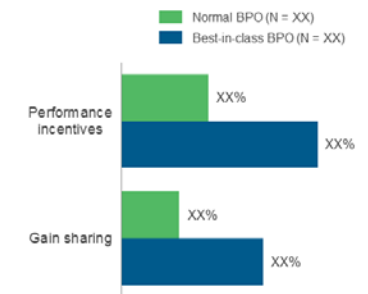
Value creation in outsourcing engagements



Include business benefits beyond cost in business cases
Number of respondents



Importance of outcome-based arrangements
Number of respondents



PricePoint research agenda

Published Current

Topic	Release date
PricePoint Q1 2012 Update: Points to Consider in the Pricing of Outsourcing Services	September-2012
Webinar: ITO and BPO Pricing: What to Expect in 2012	September-2012
PricePoint Q2 2012 Update: Points to Consider in the Pricing of Outsourcing Services	November-2012
PricePoint: Q3 2012 – Points to Consider in the Pricing of Outsourcing Services	January-2013
PricePoint: Q4 2012	Q1-2013
Webinar: Pricing Trends in Q4 2012	Q1-2013
PricePoint: Q1 2013	Q2-2013
Webinar: Pricing trends in Q1 2013	Q2-2013
PricePoint: Q2 2013	Q3-2013
Webinar: Pricing trends in Q2 2013	Q3-2013
PricePoint: Q3 2013	Q4-2013
Webinar: Pricing trends in Q3 2013	Q4-2013

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

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