



PricePoint: Q1 2013

Points to Consider in the Pricing of Outsourcing Services

Preview Deck
January-March 2013

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Global sourcing

PricePoint

Service provider Intelligence

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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- and supply-side trends impacting pricing in the Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO) deals. It is published by Everest Group's Pricing Assurance practice, which conducts pricing advisory engagements for large global buyers and providers of outsourcing services. PricePoint draws entirely from first-hand information and insights generated from:
 - “Live” advisory engagements
 - Analyst briefings and direct market conversations
 - Proprietary cost and transaction tracking tools
- PricePoint focuses on market developments in India and 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

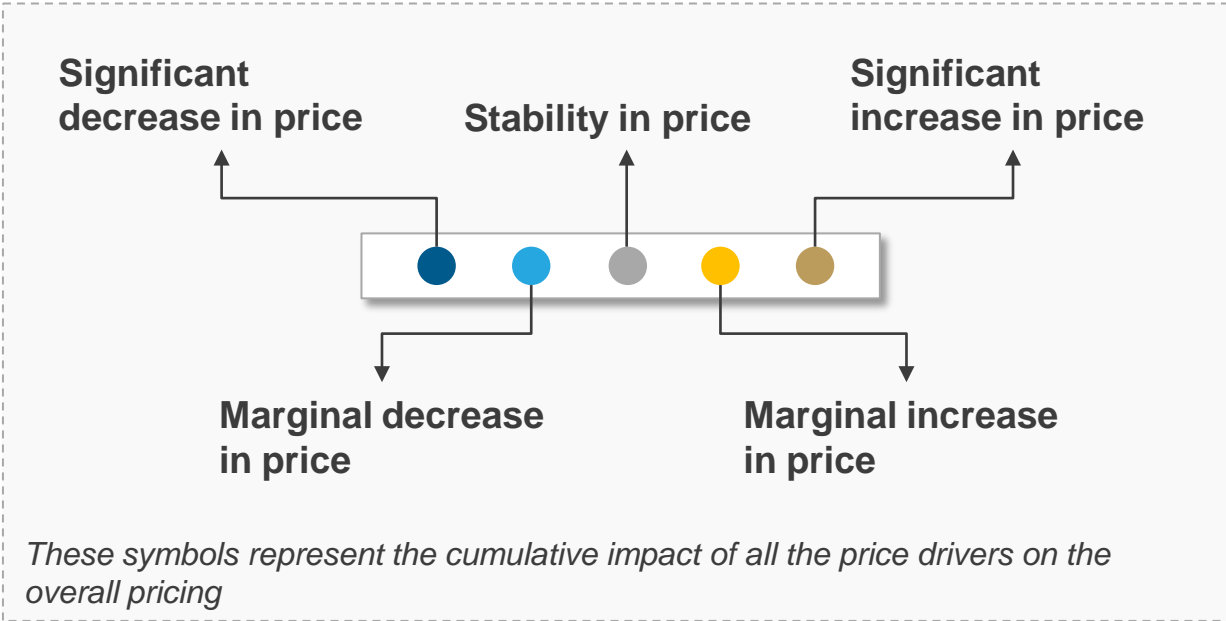
Area

Impact of price driver

Pricing implication symbols



Overall price trend/outlook



Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q1 2013

Overall trend in Q1 2013



- Deal activity in Q1 XX.
- Pricing XX as evident from XX

Outlook for Q2 2013



- Demand is expected to XX in 2013. As a result, pricing is expected to XX

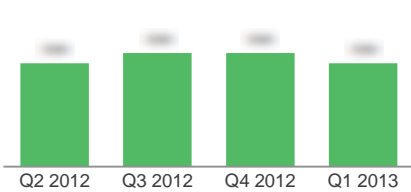
Dimension	Price Driver	Impact Q4 2012	Impact Q1 2013	Conclusion
Demand-side factors	Deal size	■	■	<ul style="list-style-type: none"> • In the previous quarter (Q4 2012), we assessed XX in demand (both volume and size) and a XX shift in value mix for ERP/SI deals • In Q1 2013, deal activity remained XX, while the skew towards ERP/SI deals XX. This was mainly driven by XX (Refer to pages 8 and 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, providers registered XX margins despite XX costs on account of XX • Q1 2013 was marked by higher onshore leverage, marginal XX in costs and XX utilization. However, pricing was XX (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"> • Operating cost inflation was XX than the last quarter • Slight depreciation in INR also worked in favor of providers, and contributed to XX (Refer to pages 13 and 14 for details)
	Forex rates	■	■	

Pricing dynamics in outsourced IT services

Snapshot

Demand-side factor (sample extract)

Size of ITO deals announced
US\$ billion



- The size of announced ITO deals XX in Q1 2013
- This was primarily due to XX
- We expect the demand for discretionary transformational project to XX in the long term

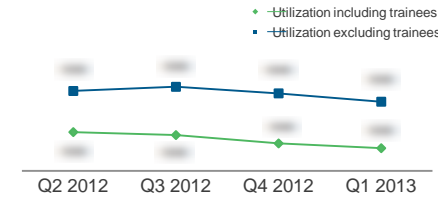
Total ITO deals announced
Number



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

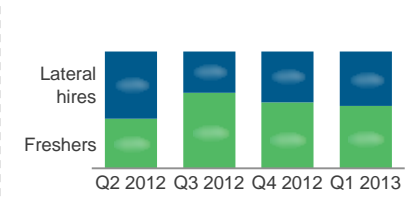
Supply-side factors (sample extract)

Resource utilization



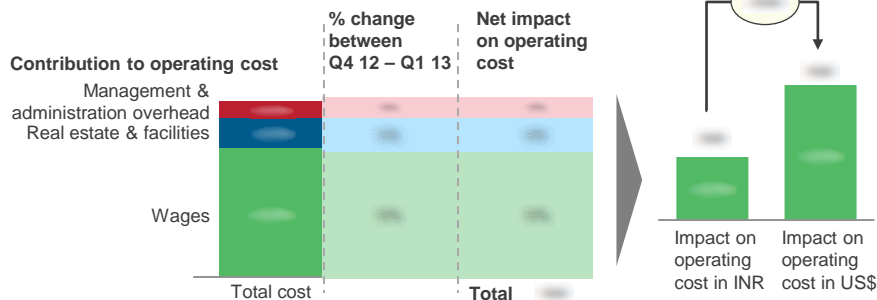
- In Q1, we witnessed XX in the average resource utilization for IT service providers . This was primarily due to :
 - XX
 - XX
 - XX

Hiring-mix



- As resource utilization XX in Q1, service providers hired more XX to replenish the reserve workforce, thereby, XX the share of freshers in hiring mix
 - XX
 - XX

Macro-economic factors (sample extract)



- Wage cost increased by XX% in Q1 2013 due to XX. In the near term, wage inflation is XX
- Real estate rentals XX in Q1 2013 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 Q1 2013
- Accounting for these currency fluctuations, net US\$ operating cost XX by XX% in Q1 2013

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 XX projects led to XX
- On the supply-side, revenue growth XX but favorable forex led to XX
- Most providers reported XX in pricing
- Overall, offshore and onsite pricing XX

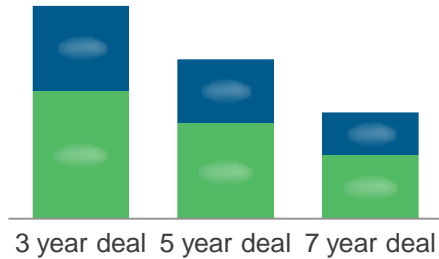
- **We** expect the demand to XX in 2013.
- As highlighted earlier, demand outlook for XX initiatives is XX
- Providers' operating cost inflation is expected to XX
- Forward looking pricing cues, shared by most service providers, suggest XX
- Overall, pricing is expected to XX
 - XX
 - XX

Featured research Snapshot

Transition Costs

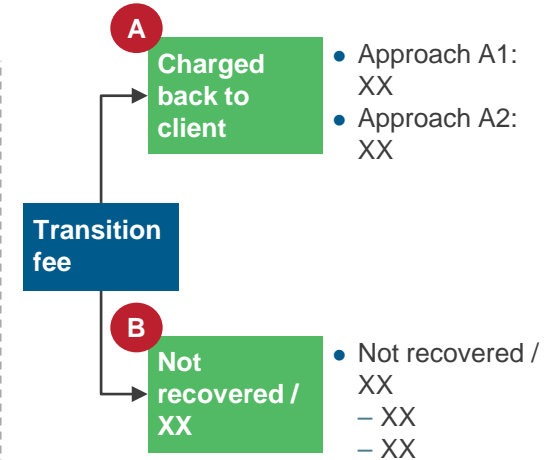
Benchmark transition cost
Percentage of Total Contract Value (TCV)

■ Provider's transition fee ■ Buyer's internal cost



Break-up of transition cost

Component	Provider's fee	Buyer's internal cost
Transition management	XX	XX
Knowledge Transfer (KT) & ramp-up	XX	XX
Travel	XX	XX
Tools & technology	XX	XX
Total	XX	XX



Furloughs

1. Contracted furloughs

A certain period of down-time is agreed in the contract. Contracted furloughs are of two types:

- XX
- XX

Impact on service provider

- XX

Impact on buyer

- XX

Prevalence in ITO deals: XX

2. Unexpected furloughs

No formal contractual clause on furloughs, but business downtime or budgetary constraints necessitate suspension of work

Impact on service provider

- XX

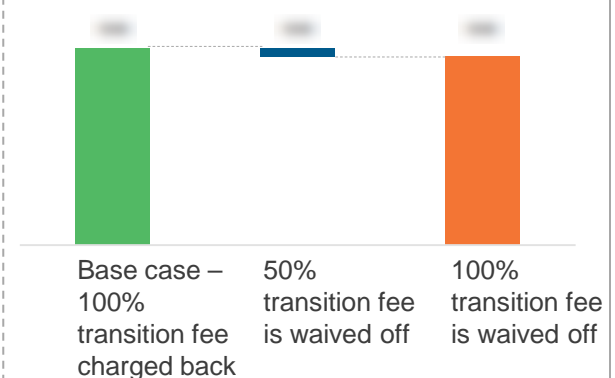
Impact on buyer

- XX

Prevalence in ITO deals: XX

Impact of furloughs on billing

Billable days per FTE per year



PricePoint research calendar

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
Webinar: 3 Pricing Questions Everyone Is Asking	March-2013
PricePoint: Q4 2012 - Points to Consider in the Pricing of Outsourcing Services	April-2013
PricePoint: Q1 2013	June-2013
Webinar: Pricing trends	Q3-2013
PricePoint: Q2 2013	Q3-2013
PricePoint: Q3 2013	Q4-2013
Webinar: Pricing trends	Q1-2014

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. **Benchmarking for Good** ([EGR-2011-9-R-0599](#)); 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
2. **Outsourced Portfolio Rationalization** ([EGR-2011-9-V-0585](#)); 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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