



## **PricePoint: Q2 2013**

# Points to Consider in the Pricing of Outsourcing Services

Preview Deck  
April-June 2013

# Our research offerings for global services

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Global sourcing

Service provider intelligence

PricePoint

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, contract assessment

<sup>1</sup> Banking, financial services, and insurance

# Introduction

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- 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 as per market dynamics
- Serves as a potential thought-starter on 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 contracted fee
- Specific peer intelligence

# Table of contents

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Topic	Page no.
<b>Section I: 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 II: 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 III: Featured research</b>	<b>25</b>
• Output-based pricing in IT infrastructure deals	26
• Managing staffing pyramids	31
<b>Appendix</b>	<b>36</b>
• Glossary of key terms	37
• PricePoint research calendar	39
• References	40

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

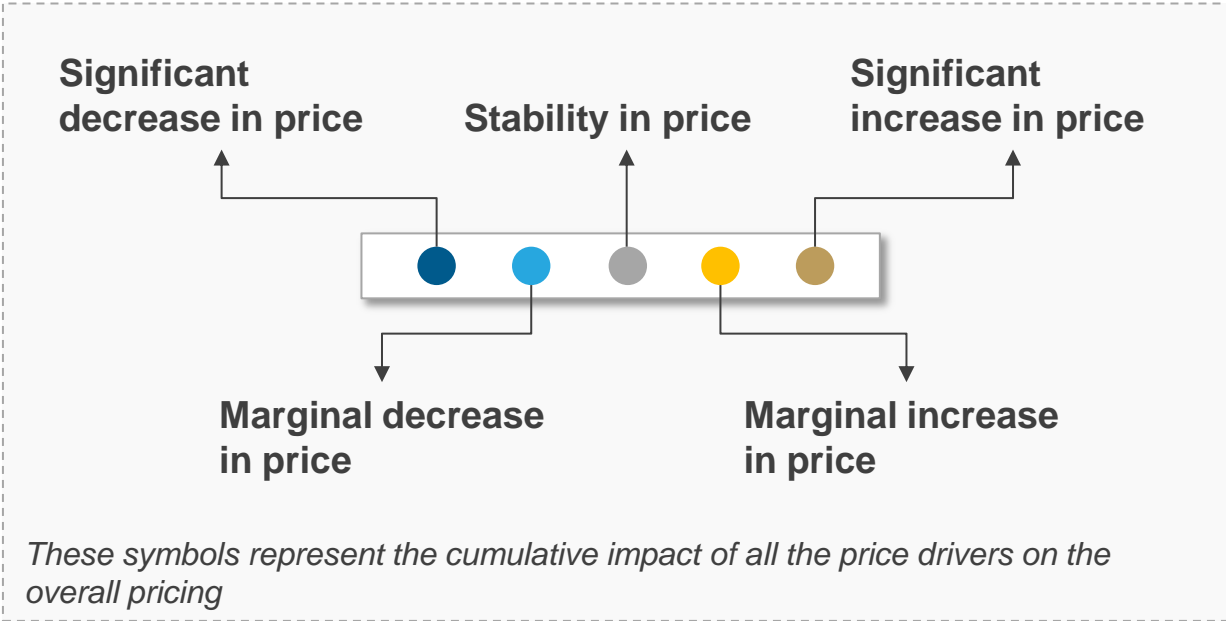
Area

Impact of price driver

Pricing implication symbols



Overall price trend/outlook



# Pricing dynamics in outsourced IT services

## Pricing dashboard – summary of pricing drivers in Q2 2013

Overall trend in Q2 2013



- Deal activity in Q2 XX.
- Pricing XX as evident from XX

Outlook for Q3 2013



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

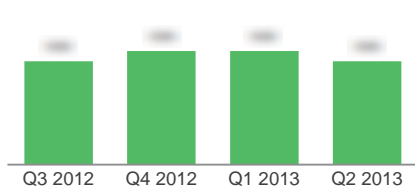
Dimension	Price Driver	Impact Q1 2013	Impact Q2 2013	Conclusion
Demand-side factors	Deal size	Grey	Blue	<ul style="list-style-type: none"> <li>• In the previous quarter (Q1 2013), we assessed XX in demand (both volume and size) and a XX shift in value mix for ERP/SI deals</li> <li>• In Q2 2013, deal 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)</li> </ul>
	Deal volume	Blue	Grey	
	Value mix	Brown	Blue	
	New deal – renewal mix	Blue	Brown	
Supply-side factors	Resource utilization	Brown	Brown	<ul style="list-style-type: none"> <li>• In the previous quarter, providers registered XX margins despite XX costs on account of XX</li> <li>• Q2 2013 was marked by XX onshore leverage, marginal XX in costs and XX utilization. However, pricing was XX (Refer to pages 10 to 12 for details)</li> </ul>
	Hiring mix	Brown	Brown	
	Overhead cost	Blue	Brown	
	Onshore-offshore mix	Grey	Blue	
	Financial performance	Brown	Blue	
Macro-economic factors	Inflation	Brown	Brown	<ul style="list-style-type: none"> <li>• Operating cost inflation was XX than the last quarter</li> <li>• Slight XX in INR also worked in favor of providers, and contributed to XX (Refer to pages 13 and 14 for details)</li> </ul>
	Forex rates	Blue	Brown	

# Pricing dynamics in outsourced IT services

## Snapshot

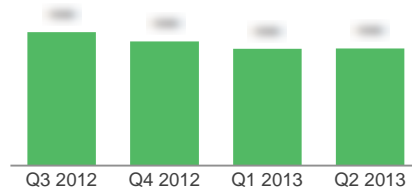
### Demand-side factor (sample extract)

Size of ITO deals announced  
US\$ billion



- The size of announced ITO deals XX in Q2 2013
- This was primarily due to XX
- We expect the demand for discretionary transformational project to XX in the long term

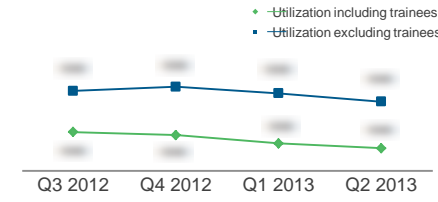
Total ITO deals announced  
Number



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

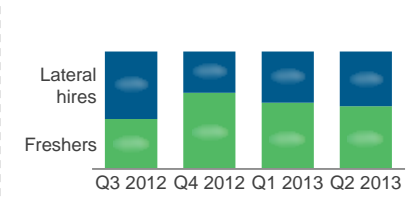
### Supply-side factors (sample extract)

Resource utilization



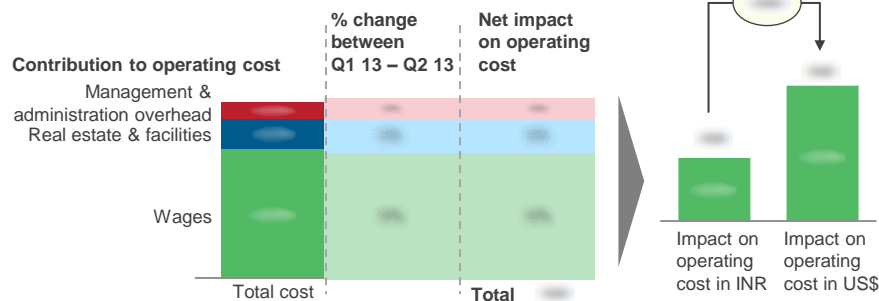
- In Q2, we witnessed XX in the average resource utilization for IT service providers . This was primarily due to :
  - XX
  - XX
  - XX

Hiring-mix



- As resource utilization XX in Q2, service providers hired more XX to replenish the reserve workforce, thereby, XX the share of freshers in hiring mix
  - XX
  - XX

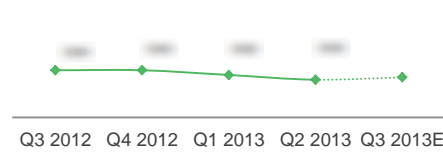
### Macro-economic factors (sample extract)



- Wage cost increased by XX% in Q2 2013 due to XX. In the near term, wage inflation is XX
- Real estate rentals XX in Q2 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 Q2 2013
- Accounting for these currency fluctuations, net US\$ operating cost XX by XX% in Q2 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

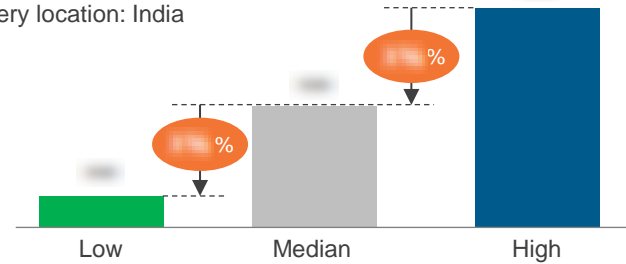
## Snapshot

### Drivers of FTE productivity in IT infrastructure towers

Key factors	Towers in IT infrastructure deal				
	Servers	Storage	Networks	Service desk	Desktop support
SLAs	<ul style="list-style-type: none"> <li>Server availability</li> </ul>				
Client's infrastructure environment					
Volumes					
Usage of tools					

### Example: Service desk pricing

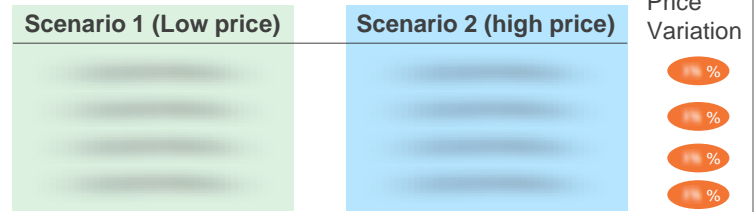
US\$ per contact; Delivery location: India



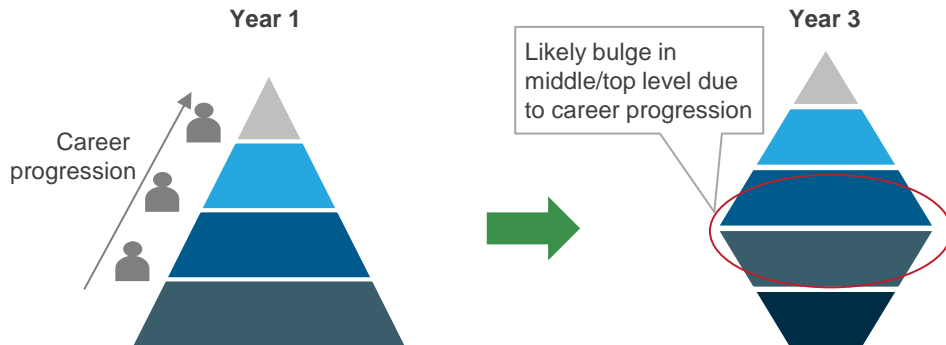
### Pricing spectrum

**Productivity** per year per year per year

SLAs  
Client environment  
Volumes  
Tools deployment



### Illustrative: Staffing pyramid changes across deal-term



### Impact of career progression on billing rate expectations

- XXX
- XXX

### Typical approach to manage and maintaining staffing pyramids

- XXX
- XXX



# 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
PricePoint: Q2 2013 .....	September-2013
Webinar: Pricing trends .....	Q4-2013
PricePoint: Q3 2013 .....	Q4-2013
PricePoint: Q4 2013 .....	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

For more information on this and other researches published by Everest Group, please contact us:

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### At a glance

- With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of the next generation of global services
- 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

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