



PricePoint™: Q1 2014

Points to Consider in the Pricing of Outsourcing Services

Preview Deck
January-March 2014

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- 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

¹ Banking, financial services, and insurance

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, which serve as the key offshore and onshore delivery locations respectively for outsourced services. Other delivery locations are included as a 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

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

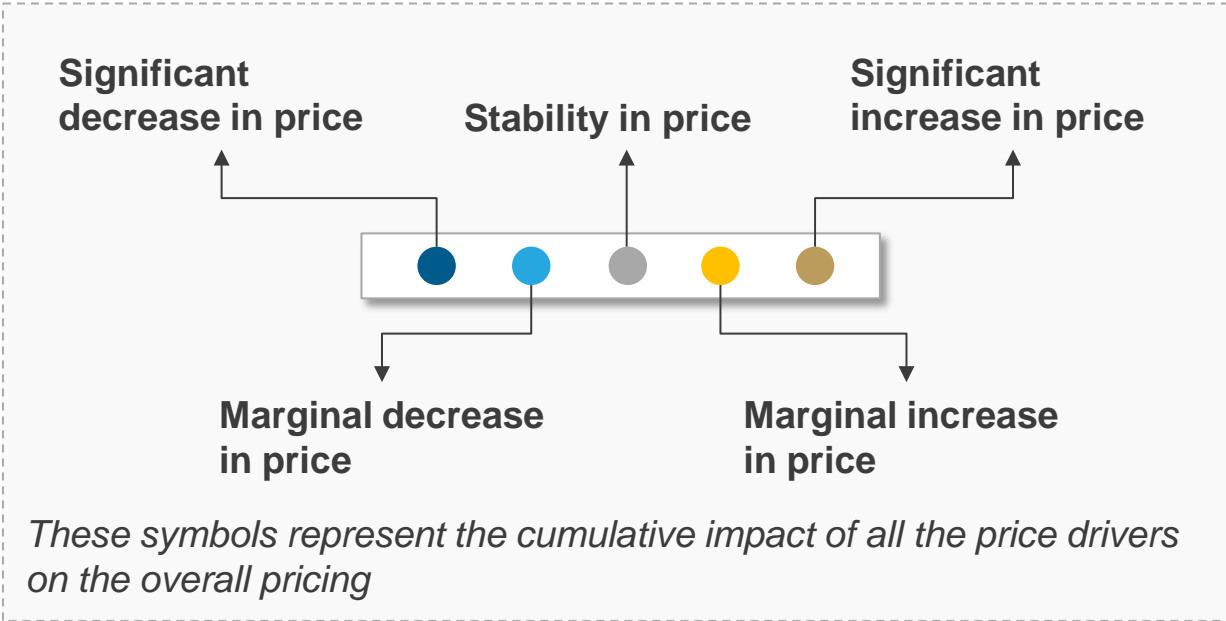
Area

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 2014

Overall trend in Q1 2014



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

Outlook for Q2 2014



- Demand is expected to XX in Q2 2014. As a result, pricing is expected to XX

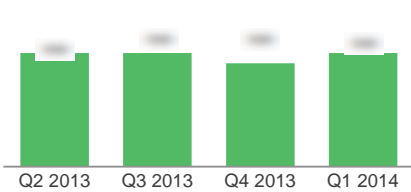
| Dimension | Price driver | Impact Q4 2013 | Impact Q1 2014 | Conclusion |
|------------------------|------------------------|----------------|----------------|--|
| Demand-side factors | Deal size | | | <ul style="list-style-type: none"> • In the previous quarter (Q4 2013), we assessed XX demand for discretionary, as well as simple outsourcing deals, though Enterprise Resource Planning / System Integration(ERP/SI) demand was XX • In Q1 2014, the demand for transformational and traditional outsourcing deals XX, leading to an overall XX demand environment, both in United States and XX <i>(Refer to pages 8 and 9 for details)</i> |
| | Deal volume | | | |
| | Value mix | | | |
| | New deal – renewal mix | | | |
| Supply-side factors | Resource utilization | | | <ul style="list-style-type: none"> • In the previous quarter, XX operational efficiencies and INR depreciation allowed providers to have XX margins • In Q1 2014, XX utilization impacted providers XX, lower Selling, General and Administrative (SG&A) costs allowed for a marginal XX in operating margins <i>(Refer to pages 10 and 11 for details)</i> |
| | Overhead cost | | | |
| | Financial performance | | | |
| Macro-economic factors | Inflation | | | <ul style="list-style-type: none"> • Operating costs XX moderately in Q1 2014 • Also, marginal XX in INR led to further XX in operating costs <i>(Refer to pages 12 and 13 for details)</i> |
| | Forex rates | | | |

Pricing dynamics in outsourced IT services

Snapshot

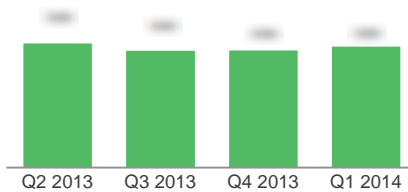
Demand-side factor (sample extract)

Size of ITO deals announced
US\$ billion



- The size of announced ITO deals XX in Q1 2014
- This was primarily due to XX
- We expect the demand for discretionary transformational project to XX in the long term

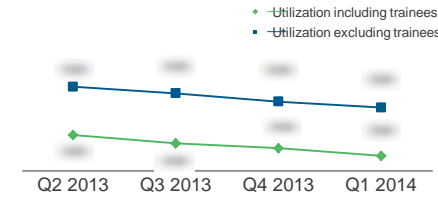
Total ITO deals announced
Number



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

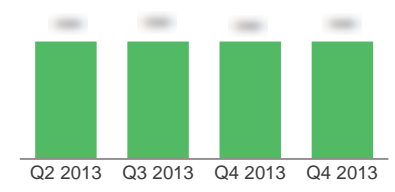
Supply-side factors (sample extract)

Resource utilization



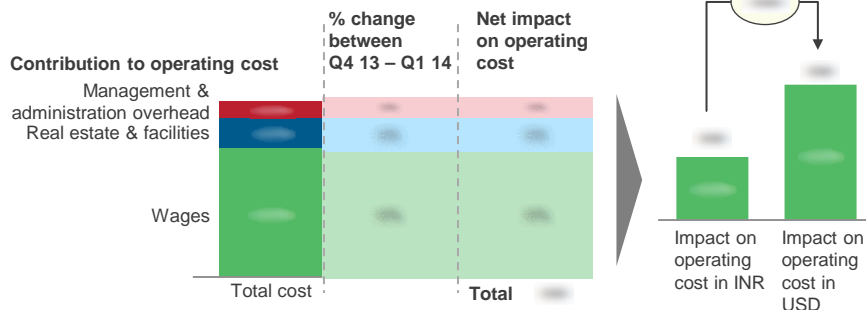
- In Q1, we witnessed XX in the average resource utilization for IT service providers . This was primarily due to :
 - XX
 - XX
 - XX

SG&A



- SG&A expenses, as a percentage of revenue incurred by providers, remained XX in Q1 2014
 - XX
 - XX
 - XX

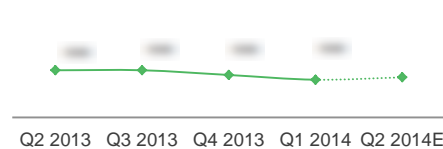
Macro-economic factors (sample extract)



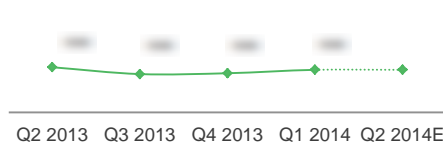
- Wage cost increased by XX% in Q1 2014 due to XX. In the near term, wage inflation is XX
- Real estate rentals XX in Q1 2014 due to XX. This led to XX% increase in the facilities costs
- Overall, operating costs of service providers increased by XX% in local currency (i.e., INR)
- However, INR XX against USD in Q1 2014
- Accounting for these currency fluctuations, net USD operating cost XX by XX% in Q1 2014

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



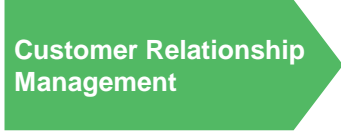



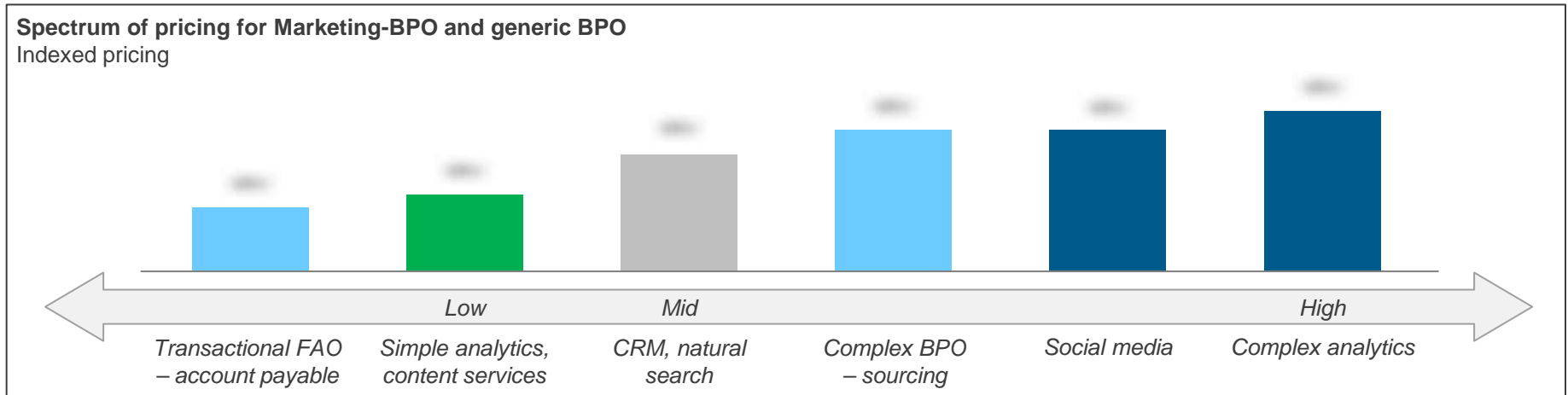
- On the buy-side, delays in / cancellation of some XX projects led to XX
- On the supply-side, revenue growth XX but favorable forex led to XX
- Most providers reported XX in pricing
Overall, offshore and onsite pricing XX

- **We** expect the demand to XX
- 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

| Marketing-BPO subfunction | Key processes | Skill availability in India | Comments |
|---|--|---|---|
|  <p>Analytics</p> | <ul style="list-style-type: none"> • Marketing return on investment • Segmentation • XX • XX |  | <ul style="list-style-type: none"> • High availability of XX as analytics is now a XX in BPO as well as IT ADM deals |
|  <p>Customer Relationship Management</p> | <ul style="list-style-type: none"> • Campaign planning, design, setup • Marketing workflow management • Population sizing • XX • XX • XX |  | <ul style="list-style-type: none"> • Contiguous with XX |



PricePoint research calendar

■ Published
 ■ Current

| Topic | Release date |
|--|----------------|
| Webinar Deck: State of the Global Services Market: 2013 Predictions | January-2013 |
| 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 – Points to Consider in the Pricing of Outsourcing Services | June-2013 |
| PricePoint™: Q2 2013 – Points to Consider in the Pricing of Outsourcing Services | September-2013 |
| PricePoint™: Q3 2013 – Points to Consider in the Pricing of Outsourcing Services | December-2013 |
| PricePoint™: Q4 2013 – Points to Consider in the Pricing of Outsourcing Services | June-2014 |
| PricePoint™: Q1 2014 – Points to Consider in the Pricing of Outsourcing Services | August-2014 |
| PricePoint™: Q2 2014 | Q3-2014 |
| PricePoint™: Q3 2014 | Q4-2014 |

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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