



PricePoint™: Q3 2014

Points to Consider in the Pricing of Outsourcing Services

Preview Deck

July-September 2014

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:

Corporate Headquarters

Office: +1-214-451-3000

info@everestgrp.com

European Headquarters

Office: +44-207-129-1318

unitedkingdom@everestgrp.com

Market Vista™

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

BFSI¹ information technology

PricePoint™

BFSI¹ business process

Finance & accounting

Healthcare information technology

Procurement

Information technology

Human resources

Cloud Vista™

Recruitment process

Global sourcing

Contact center

Locations Insider™

Transaction Intelligence

Custom research capabilities

- | Benchmarking | Pricing, delivery model, skill portfolio
- | 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
 - Financial results published by service providers
- | 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 contract fee
- | Specific peer intelligence

Note: Due to the lag in publishing of financial results by service providers, PricePoint reports are published with a lag of one quarter

Table of contents

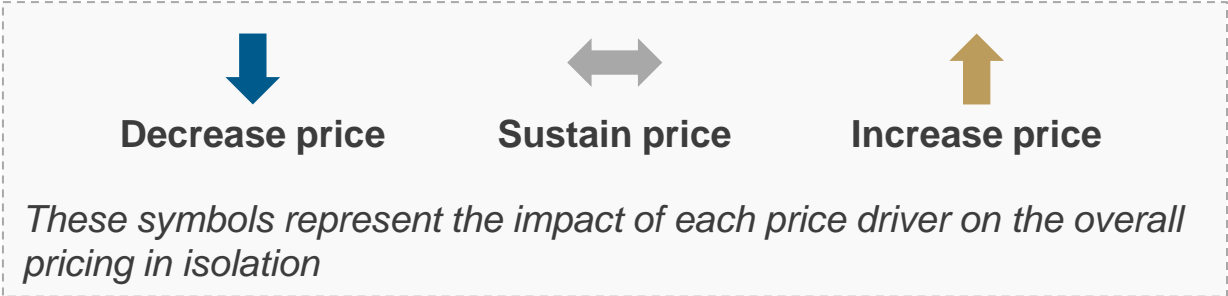
Topic	Page no.
Section I: Pricing dynamics in outsourced IT services	6
Pricing dashboard	7
Demand-side analysis	8
Supply-side analysis	10
Key macroeconomic factors	12
Trends and future outlook	14
Section II: Pricing dynamics in outsourced business process services	15
Pricing dashboard	16
Demand-side analysis	17
Supply-side analysis	19
Key macroeconomic factors	21
Trends and future outlook	23
Section III: Featured research	24
Cloud-based HR systems	25
Termination Clauses relevant in outsourcing contracts	31
Appendix	35
Glossary of key terms	36
PricePoint research calendar	38
References	39

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

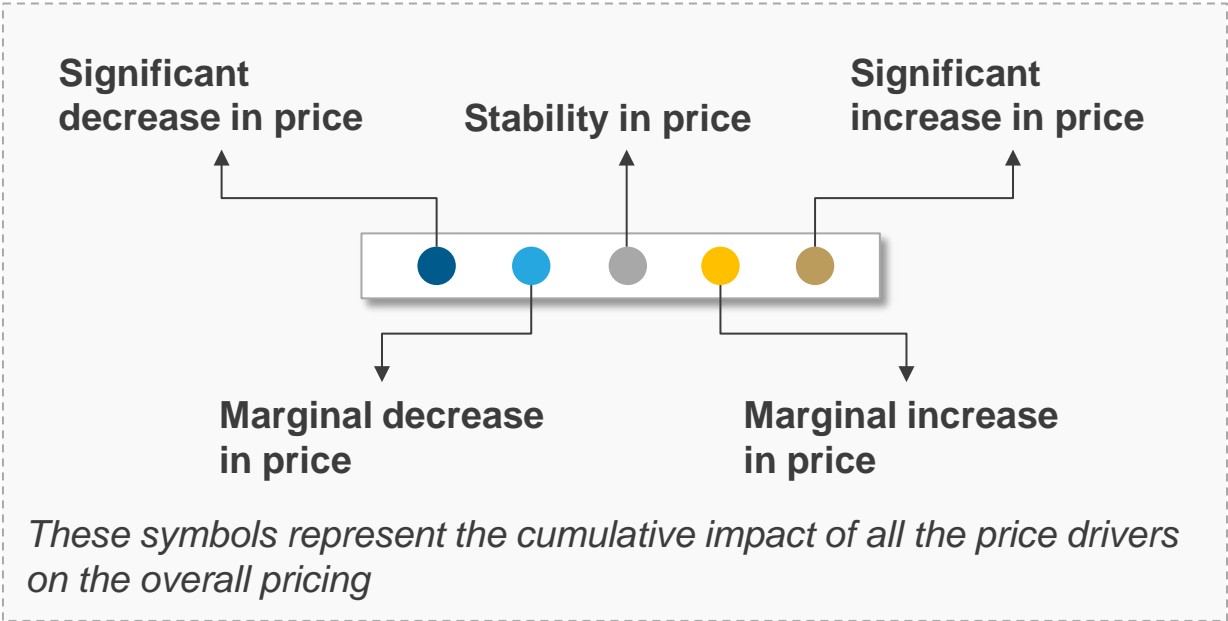
Area

Impact of price driver

Pricing implication symbols





Overall price trend/outlook



Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q3 2014

Overall trend in Q3 2014 	<ul style="list-style-type: none"> Demand was XXX. XXX in wages led to operating cost XXX. However, XXX utilization levels and INR XXX provided XXX to services providers. Overall pricing XXX at onshore and offshore locations
Outlook for Q4 2014 	<ul style="list-style-type: none"> Service providers XXX to have a XXX pipeline of projects. Given the XXX in operating costs and the XXX utilization levels, providers are expected to XXX the price XXX to clients

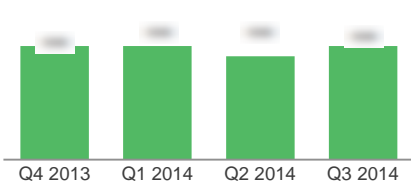
Dimension	Price driver	Impact Q2 2014	Impact Q3 2014	Conclusion
Demand-side factors	Deal size			<ul style="list-style-type: none"> Demand-side factors XXX during Q3 2014 North American region XXX demand while Europe was XXX due to XXX conditions Decision cycle times for clients XXX from last year with XXX on XXX initiatives Banking and financial services XXX to witness XXX demand, while retail and healthcare were XXX <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"> SG&A¹ expenses, as a percentage of revenue, XXX, while utilization levels XXX for most service providers Both Indian and Global service providers experienced a XXX in Year-on-Year (YoY) revenue growth and 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, specifically in XXX, XXX at a much XXX rate aided by the XXX of INR vis-à-vis USD XXX continues to be the primary cost driver <i>(Refer to pages 12 and 13 for details)</i>
	Forex rates			

Pricing dynamics in outsourced IT services

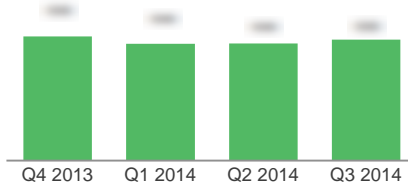
Snapshot

Demand-side factor (sample extract)

Size of ITO deals announced
US\$ billion



Total ITO deals announced
Number

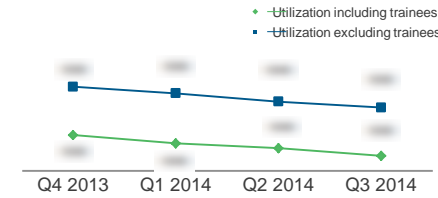


- The size of announced ITO deals XX in Q3 2014
- This was primarily due to XX
- Spending remained XXX for both discretionary and non-discretionary projects, with an overall emphasis on XXX

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

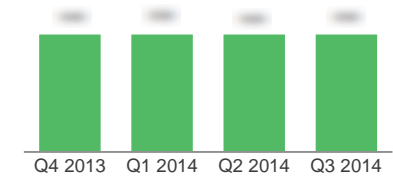
Supply-side factors (sample extract)

Resource utilization



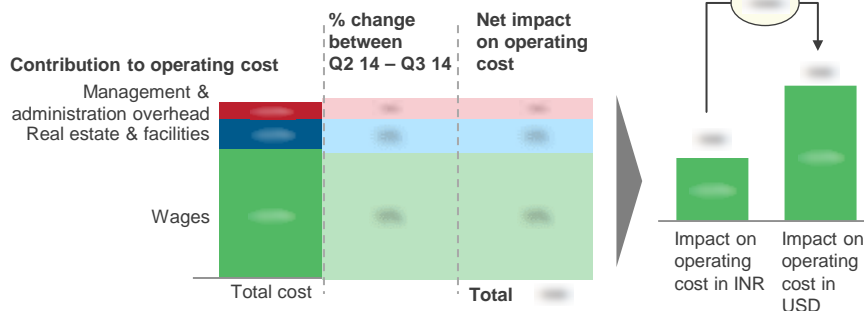
- In Q3, we witnessed XX in the average resource utilization for IT service providers. This was primarily due to:
 - XX
 - XX
 - XX

SG&A



- SG&A expenses, as a percentage of revenue incurred by providers, remained XX in Q3 2014
- XX
- XX
- XX

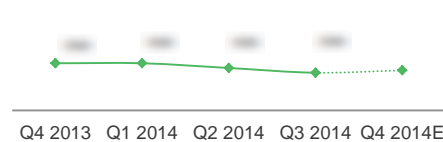
Macro-economic factors (sample extract)



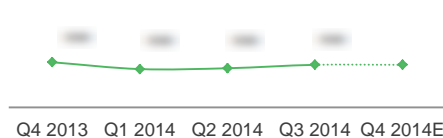
- Wage cost increased by XX% in Q3 2014 due to XX. In the near term, wage inflation is XX
- Real estate rentals XX in Q3 2014 due to XX. This led to XX% increase in the facilities costs
- Overall, operating costs of service providers increased by XX% in local currency (i.e., INR)
- However, INR XX against USD in Q3 2014
- Accounting for these currency fluctuations, net USD operating cost XX by XX% in Q3 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

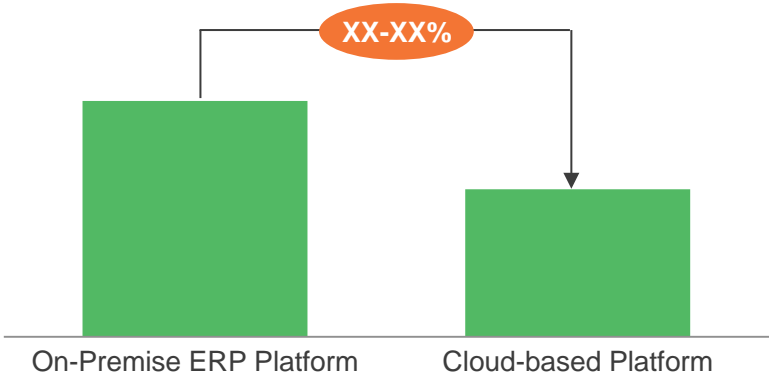


- Buy-side factors XXX in Q3 2014, with XXX in both discretionary and non-discretionary projects
- On the supply-side, XXX led to an XXX. This was offset by XXX
- Most providers reported XX in pricing
- Overall, offshore and onsite pricing XX

- Demand is expected to be XX
- As highlighted earlier, demand outlook for XX initiatives is XX
- Discretionary spending is expected to XXX, with increased focus on XXX projects, especially from XXX clients
- Overall, given the current XXX of utilization and range-bound XXX, pricing is expected to XX
- XX
- XX

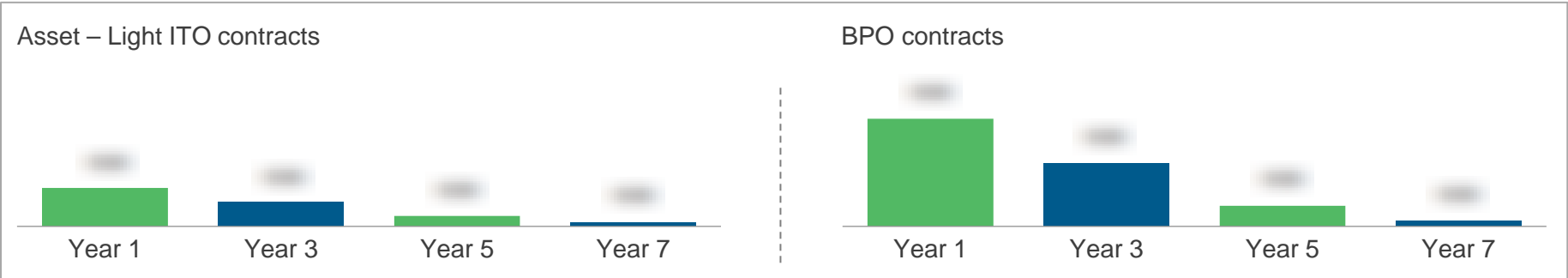
Featured research Snapshot

Typical discount for Cloud platform vis-à-vis on-premise ERP solution



- | Typical discount observed in large HRO deals with a Cloud-based solution vis-à-vis on-premise ERP platform-based solution is ~XX%
- | The pricing difference is primarily attributed to:
 - Different XXX related to XXX and XXX of the XXX system. As compared to an on-premise platform, a Cloud-based solution (such as Workday and Success Factor), requires XXX from the service provider to XXX
 - Cloud-based solutions have a XXX with XXX client-specific XXX. The XXX across clients enables providers to XXX, leading to XXX
 - Requests for XXX, are directly routed to the XXX, and XXX involvement is typically XXX

Typical termination fee as a percentage of TCV¹



¹ TCV: Total Contract Value

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 – Points to Consider in the Pricing of Outsourcing Services	November-2014
PricePoint™: Q3 2014	February-2015

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](#)); 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
2. **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, Vice President:
Rahul Gehani, Practice Director:
Vishwas Saxena, Senior Analyst:
Ricky Sundrani, Senior Analyst:

sarthak.brahma@everestgrp.com
rahul.gehani@everestgrp.com
vishwas.saxena@everestgrp.com
ricky.sundrani@everestgrp.com

Website: www.everestgrp.com | Phone: +1-214-451-3000 | Email: info@everestgrp.com



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

Dallas (Headquarters)

info@everestgrp.com
+1-214-451-3000

New York

info@everestgrp.com
+1-646-805-4000

Toronto

canada@everestgrp.com
+1-647-557-3475

London

unitedkingdom@everestgrp.com
+44-207-129-1318

Delhi

india@everestgrp.com
+91-124-284-1000

Stay connected

Websites

www.everestgrp.com
research.everestgrp.com



Twitter

@EverestGroup
@Everest_Cloud



Blog

www.sherpasinblueshirts.com

