



PricePoint™: Q4 2014

Points to Consider in the Pricing of Outsourcing Services

Preview Deck

October-December 2014

Our research offerings for global services

▶ Market Vista™

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

▶ BFSI¹ Information Technology

▶ BFSI¹ Business Process

▶ Healthcare & Life Sciences

▶ Application & Digital

▶ Cloud & Infrastructure

▶ Global Sourcing

▶ Locations Insider™

▶ PricePoint™

▶ Finance & Accounting

▶ Procurement

▶ Human Resources

▶ Recruitment Process

▶ Contact Center

▶ 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

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

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 the Pricing Assurance practice at Everest Group that conducts pricing advisory engagements for large global buyers and providers of outsourcing services. PricePoint draws entirely from first-hand information and insights that have been 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 delay 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 |
| • Backup storage solutions | 25 |
| Appendix | 33 |
| • Glossary of key terms | 34 |
| • PricePoint research calendar | 36 |
| • References | 37 |

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

Area

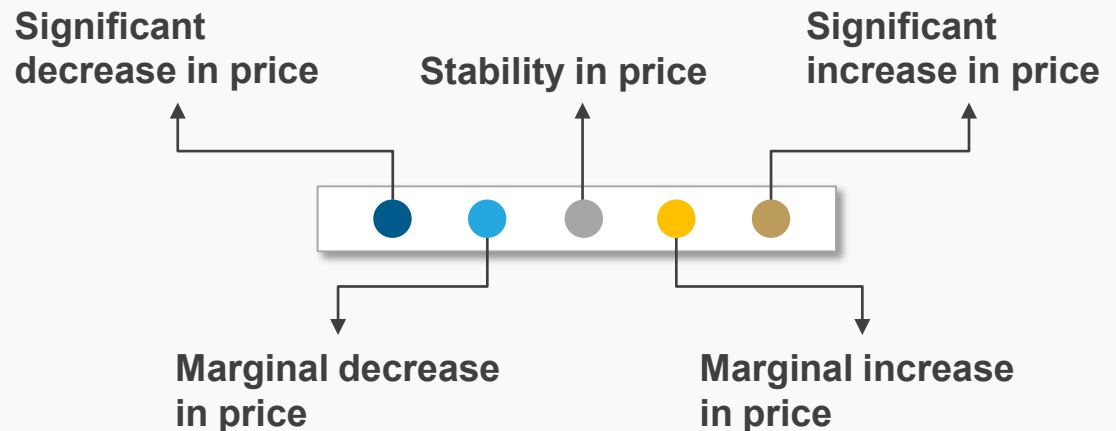
Impact of
price driver

Pricing implication symbols



These symbols represent the impact of each price driver on the overall pricing in isolation

Overall price
trend/outlook



These symbols represent the cumulative impact of all the price drivers on the overall pricing

Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q4 2014

Overall trend in Q4 2014



- Though demand was XXX, XXX of XXX factors, combined with XXX due to uncertain XXX, led to XXX on pricing. As a result, pricing XXX

Outlook for Q1 2015



- Service providers continue to have XXX. However, most XXX are facing significant XXX, and are therefore XXX. In addition, the XXX is driving providers adopt a XXX approach by going for XXX

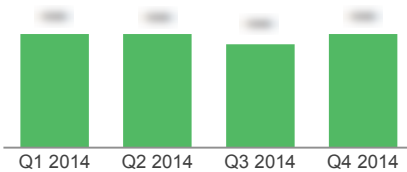
| Dimension | Price driver | Impact Q3 2014 | Impact Q4 2014 | Conclusion |
|------------------------|------------------------|----------------|----------------|--|
| Demand-side factors | Deal size | | | <ul style="list-style-type: none"> Demand-side factors were XXX in this quarter The XXX market was strong while the XXX market continued to be muted Decision cycle times for buyers XXX due to the XXX XXX, XXX, and XXX sectors showed muted demand, however, the XXX sector is expected to pick up in the coming quarters <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 the XXX in utilization levels XXX in Q4 2014. This can be attributed to XXX Year-on-Year (YoY) revenue growth and margins XXX for both Indian and Global service providers <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 USD, XXX in India due to 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

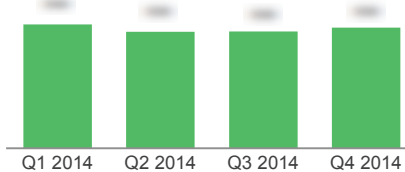
Demand-side factor (sample extract)

Size of ITO deals announced
US\$ billion



- In Q4 2014, the share of XXX witnessed a significant XXX
- This can be attributed to XX
- In addition to this, XXX are XXX appetite for deals that are XXX. This leads to XXX being XXX than typical due to XXX

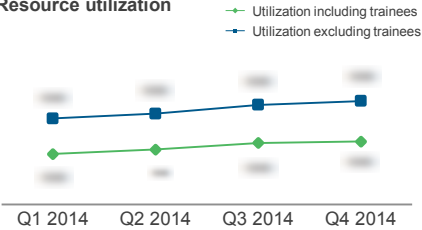
Total ITO deals announced
Number



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

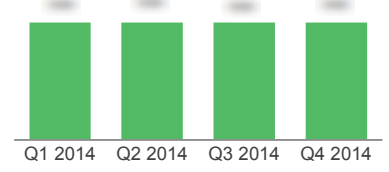
Supply-side factors (sample extract)

Resource utilization



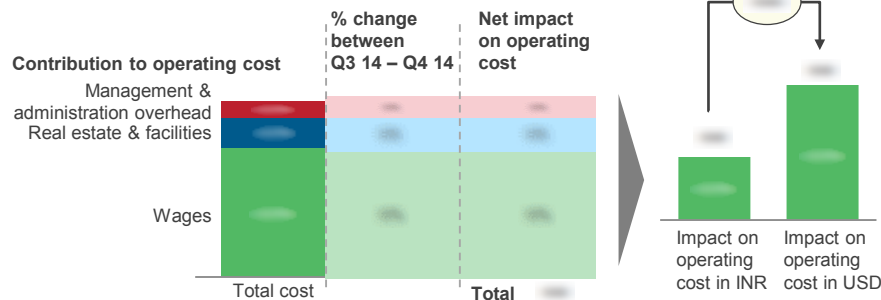
- In Q4, we witnessed XX in the average resource utilization for IT service providers. This was primarily due to:
 - XX
 - XX
 - XX

SG&A



- SG&A expenses, as a percentage of revenue incurred by providers, XXX in Q4 2014 due to the below reasons
 - XX
 - XX
 - XX

Macro-economic factors (sample extract)



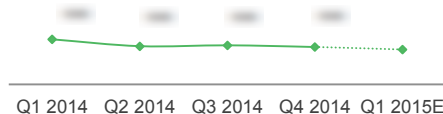
- Wage cost XXX by XX% in Q4 2014 due to XX. In the near term, wage inflation is XX
- Real estate rentals XX in Q4 2014 due to XX. This led to XX% increase in the facilities costs
- Overall, operating costs of service providers increased by XX% in local currency (i.e., INR)
- However, INR XX against USD in Q4 2014
- Accounting for these currency fluctuations, net USD operating cost XX by XX% in Q4 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



- The buy-side factors were XXX
- On the supply-side, XXX improved where as XXX reduced, giving providers XXX
- Overall pricing XXX at offshore, aided by XXX, while it XXX at onshore due to XXX

- The XXX market is looking strong and the XXX should be stable from XXX
- The XXX from the XXX sector is likely to be XXX to some extent by the expected XXX in XXX sector post XXX
- Providers are XXX on the XXX in the coming quarters, which should provide some XXX if the XXX
 - XX
 - XX

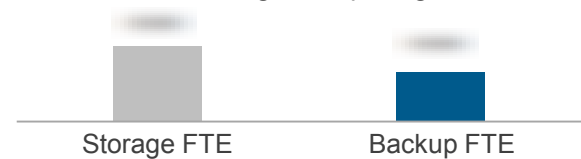
Featured research

Snapshot

Billing rates for backup FTEs vs storage FTEs

Backup FTE pricing comparison with storage FTE

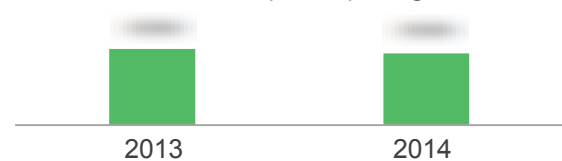
Indexed base = storage FTE pricing = XXX



Trend in billing rates for backup resources

Backup FTE pricing trend

Indexed base = backup FTE pricing for 2013 = XXX



Key takeaways:

- Backup resources are nearly XX-XX% less expensive than core storage resources
- However, in specific deals, the rate cards XXX between XXX and XXX and have a XXX for XXX types of resources. This is XXX when the XXX are not high enough to XXX
- When the XXX, buyers should ask for XXX, since they are generally XXX than XXX
- FTE pricing for XXX has XXX by nearly X-X% in the last year. This can be attributed to XXX which is XXX the XXX of backup

Backup FTE productivity

Productivity metrics:

The commonly used FTE productivity metrics for backup by service providers are:

- XXX

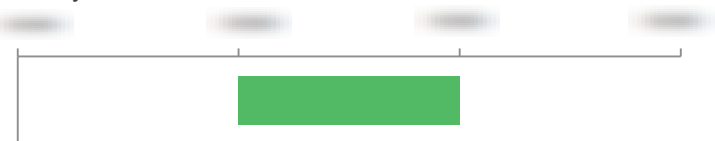
The backup FTE productivity is influenced by the below factors:

- XXX
- XXX
- XXX

Typical FTE productivity

Backup storage per FTE

Terabytes



Number of backup jobs per FTE



PricePoint research calendar

Published Current

| Topic | Release date |
|--|---------------|
| 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 | December 2014 |
| PricePoint Q3 2014 Points to Consider in the Pricing of Outsourcing Services | February 2015 |
| Enterprise Cloud Adoption - Solving the Pricing Conundrum | March 2015 |
| Webinar Deck: How Effectively Are You Managing Value Leakage in Your Sourcing Contracts? | April 2015 |
| PricePoint: Q4 2014 | May 2015 |
| PricePoint: Q1 2015 | Q2 2015 |
| PricePoint: Q2 2015 | Q3 2015 |
| PricePoint: Q3 2015 | Q4 2015 |
| PricePoint: Q4 2015 | Q1 2016 |

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, Vice President :
Vishwas Saxena, Senior Analyst:
Ricky Sundrani, Senior Analyst:
Sumeet Raina, Senior Analyst:

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

SHERPAS
IN BLUE SHIRTS

www.sherpasinblueshirts.com