



PricePoint™: Q3 2016

Points to Consider in the Pricing of Outsourcing Services

July – September 2016 – Preview Deck

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 - **PricePoint™**
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- **If you want to learn whether your organization has a subscription agreement or request information on pricing and subscription options, please contact us**

* Banking, financial services, and insurance

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



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Introduction

- PricePoint is a quarterly compendium of key demand- and supply-side trends impacting pricing in 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 the United States, which serve as the key offshore and onshore delivery locations respectively, 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 contract fee
- Specific peer intelligence

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

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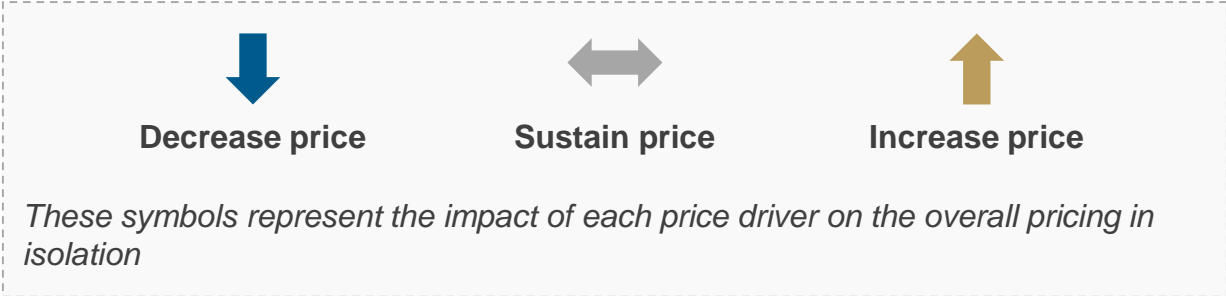
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Guide to interpreting pricing dashboards for outsourced IT and business process services

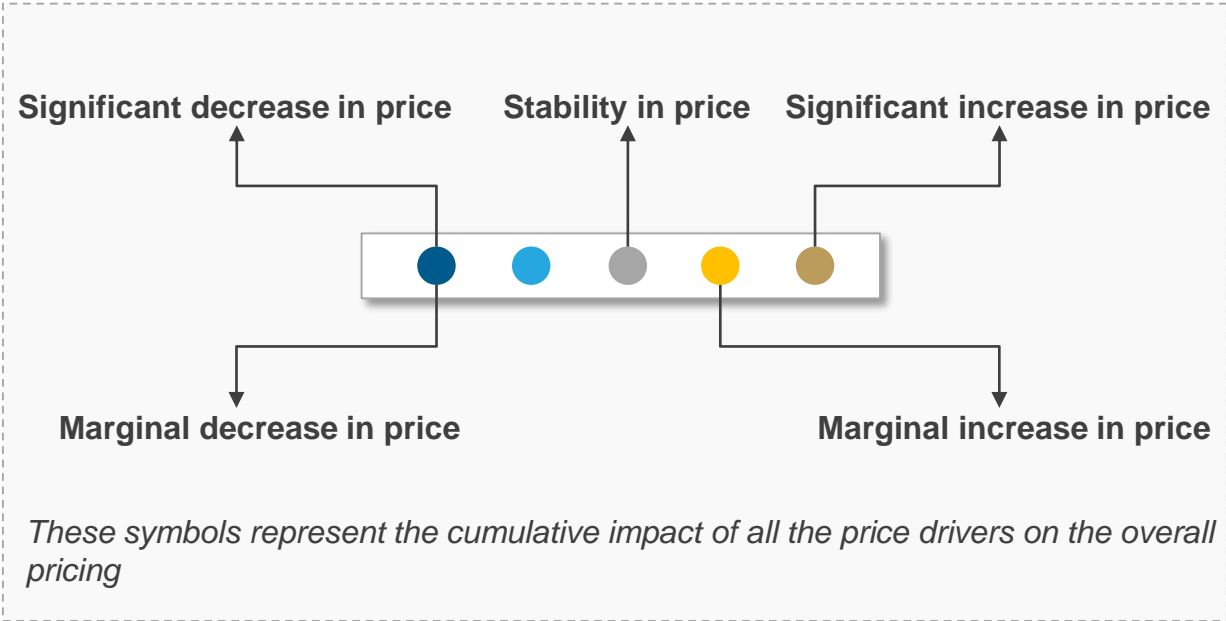
Area

Impact of price driver

Pricing implication symbols





Overall price trend/outlook





















Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q3 2016

Overall trend in Q3 2016  Demand for IT services, mostly saw XXX. Utilization and SG&A expenses witnessed XXX. Indian providers' revenue growth XXX. Overall, pricing XXX.

Outlook for Q4 2016  Demand and size of deals is XXX. The digital sector XXX. Demand for XXX outsourcing is likely to XXX, which would XXX.

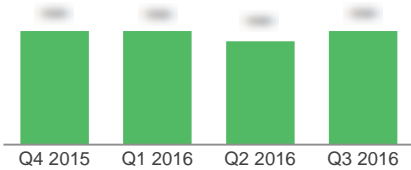
Dimension	Price driver	Impact Q2 2016	Impact Q3 2016	Conclusion
Demand-side factors	Deal size			<ul style="list-style-type: none"> In Q3 2016, number of deals, more specifically the smaller deals XXX XXX led the XXX, while XXX was expectedly muted Deal mix (ADM, IO, and ERP/SI deals) XXX XXX sectors, which came across some headwinds in Q2, recovered well in Q3 <p><i>(Refer to pages XX and XX for details)</i></p>
	Deal volume			
	Value mix			
	New deal – renewal mix			
Supply-side factors	Resource utilization			<ul style="list-style-type: none"> Utilization levels XXX in Q3 as compared to the last quarter SG&A cost saw XXX, primarily due to XXX Indian IT players had XXX as XXX <p><i>(Refer to pages XX and XX for details)</i></p>
	Overhead cost			
	Financial performance			
Macro-economic factors	Inflation			<ul style="list-style-type: none"> Q3 2016 witnessed very XXX, but due to lower depreciation in XXX, the costs were XXX Wage cost inflation in the U.S. XXX compared to previous quarter <p><i>(Refer to pages XX and XX for details)</i></p>
	Forex rates			

Pricing dynamics in outsourced IT services

Snapshot

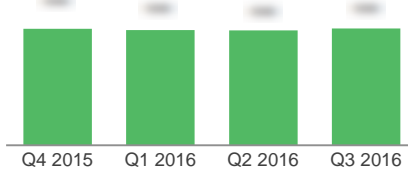
Demand-side factor (sample extract)

Size of ITO deals announced
US\$ billion



- Q3 2016 witnessed XX
- This may be attributed to XX
- Deal size for XX registered XX, while that for XX witnessed XX

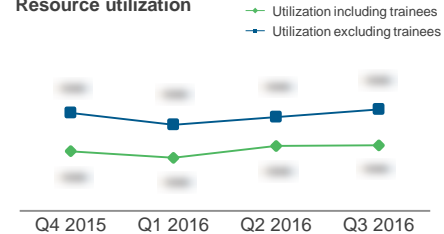
Total ITO deals announced
Number



- The demand for ITO services XXX in Q3 2016. Key contributing factors were:
 - XX
 - XX
 - XX

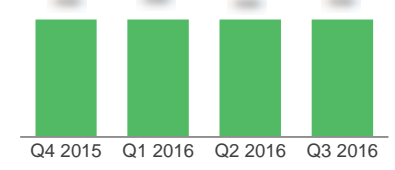
Supply-side factors (sample extract)

Resource utilization



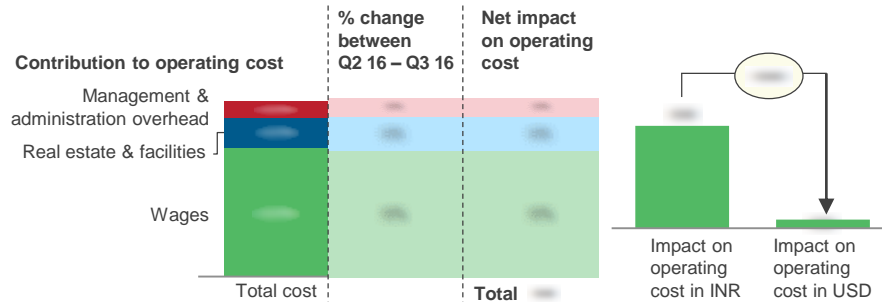
- Q3 2016 continued to witness XX in the resource utilization levels over the previous quarters. This was primarily due to :
 - XX
 - XX
 - XX

SG&A



- SG&A expenses, as a percentage of revenue witnessed XXX in Q3 2016 as :
 - XX
 - XX
 - XX

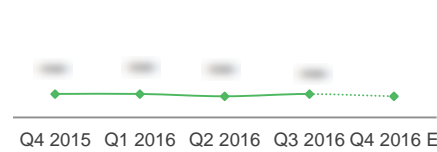
Macro-economic factors (sample extract)



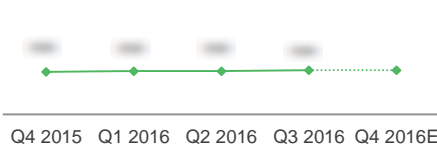
- Wage growth in India in Q3 2016 XX as compared to last quarter
- Office rentals XX in this quarter, as XX
- Overall, the operating costs went XX by XX% in INR, XX than what was observed in the last quarter
- INR depreciated XX against USD, XX in Q3 2016
- Overall, net operating costs for service providers XX by XX% in USD terms, accounting for XX

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



- Buyer demand XXX due to increased XXX
- On the supply-side, XXX experienced XXX Global players had a XXX
- Overall, Pricing XXX at both onshore and offshore locations this quarter

- Demand and distribution of deals in terms of size is expected to XXX in the coming quarters
- Geographically, North America is expected to XXX, while demand in APAC is XXX
- On the supply side, both revenue growth and the margins are expected to XXX
- Pricing is expected to XXX marginally at XXX

Featured Research | Snapshot

Good Governance practices - Tracking sourcing success at three levels

Category	Typical parameters	Sample metrics
Strategic objectives / business impact	<ul style="list-style-type: none">• Customer satisfaction• XXX• XXX• XXX	<ul style="list-style-type: none">• Reduction in percentage of abandonment cases at checkout (e-commerce retailer)• Reduction in percentage of abandonment cases at checkout (e-commerce retailer)
Financial objectives	<ul style="list-style-type: none">• Business case savings• XXX• XXX• XXX• XXX	<ul style="list-style-type: none">• Reduction in percentage of abandonment cases at checkout (e-commerce retailer)• Reduction in percentage of abandonment cases at checkout (e-commerce retailer)
Service delivery objectives	<ul style="list-style-type: none">• SLA compliance• OLA compliance• XXX• XXX• XXX	<ul style="list-style-type: none">• Reduction in percentage of abandonment cases at checkout (e-commerce retailer)• Reduction in percentage of abandonment cases at checkout (e-commerce retailer)

It is important to report end-to-end metrics and provide commentary and not necessarily "all greens"

PricePoint research calendar

■ Published
 ■ Current

Topic **Release date**

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 Points to Consider in the Pricing of Outsourcing Services	May 2015
PricePoint™ Q1 2015 Points to Consider in the Pricing of Outsourcing Services	July 2015
PricePoint™ Q2 2015 Points to Consider in the Pricing of Outsourcing Services	November 2015
PricePoint™ Q3 2015 Points to Consider in the Pricing of Outsourcing Services	March 2016
PricePoint™: Q4 2015 Points to Consider in the Pricing of Outsourcing Services	June 2016
PricePoint™: Q1 2016 Points to Consider in the Pricing of Outsourcing Services	July 2016
PricePoint™: Q2 2016 Points to Consider in the Pricing of Outsourcing Services	September 2016
PricePoint™: Q3 2016 Points to Consider in the Pricing of Outsourcing Services	February 2017

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. **Enterprise Cloud Adoption – Solving the Pricing Conundrum** ([EGR-2016-4-R-1407](#)); 2016. Enterprises witness serious hurdles in rationally evaluating pricing across vast expanse of “non-standardized” cloud offerings. This white paper outlines the unique complexities associated with cloud pricing and the need for a robust evaluation framework to benchmark cloud services
2. **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
3. **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:

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About Everest Group

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