



PricePoint™: Q4 2016

Points to Consider in the Pricing of Outsourcing Services

October–December 2016 – Preview Deck

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▶ PricePoint™

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▶ Service Optimization Technologies

▶ 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



Delhi Office

Office: +91-124-284-1000

india@everestgrp.com

* Banking, financial services, and insurance

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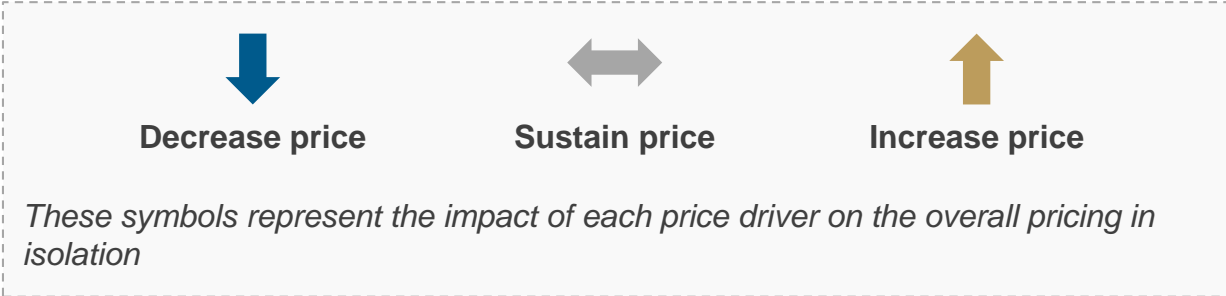
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Guide to interpreting pricing dashboards for outsourced IT and business process services

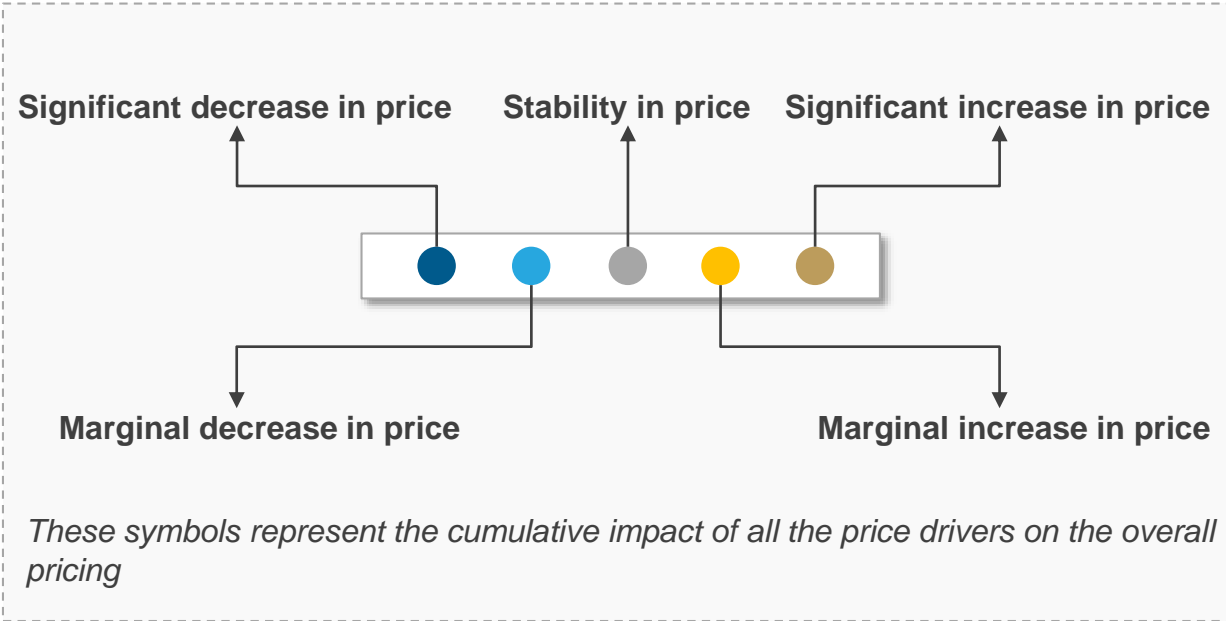
Area

Impact of price driver

Pricing implication symbols



Overall price trend/outlook



Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q4 2016

Overall trend in Q4 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 Q1 2017

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

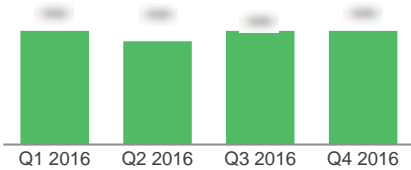
Dimension	Price driver	Impact Q3 2016	Impact Q4 2016	Conclusion
Demand-side factors	Deal size			<ul style="list-style-type: none"> • In Q4 2016, number of deals, more specifically the smaller deals XXX • XXX led the XXX, while XXX was expectedly muted • Deal mix (ADM, IO, and ERP/SI deals) XXX • XXX sectors, which came across some headwinds in Q3, recovered well in Q4 <p><i>(Refer to pages 8 and 9 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 Q4 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 10 and 11 for details)</i></p>
	Overhead cost			
	Financial performance			
Macro-economic factors	Inflation			<ul style="list-style-type: none"> • Q4 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 12 and 13 for details)</i></p>
	Forex rates			

Pricing dynamics in outsourced IT services

Snapshot

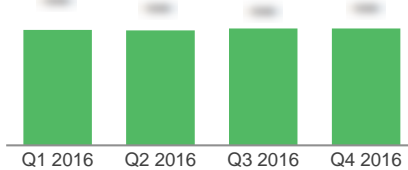
Demand-side factor (sample extract)

Size of ITO deals announced
US\$ billion



- Q4 2016 witnessed XX
- This may be attributed to XX
- Deal size for XX registered XX, while that for XX witnessed XX

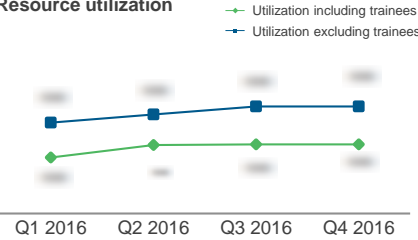
Total ITO deals announced
Number



- The demand for ITO services XXX in Q4 2016. Key contributing factors were:
 - XX
 - XX
 - XX

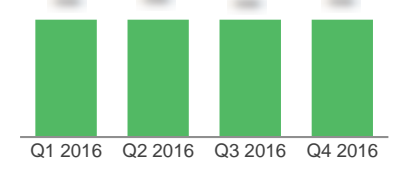
Supply-side factors (sample extract)

Resource utilization



- Q4 2016 continued to witness XX in the resource utilization levels over the previous quarters. This was primarily due to :
 - XX
 - XX
 - XX

SG&A



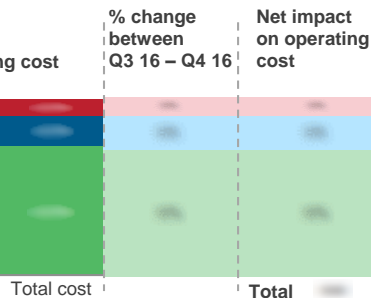
- SG&A expenses, as a percentage of revenue witnessed XXX in Q4 2016 as :
 - XX
 - XX
 - XX

Macro-economic factors (sample extract)

Contribution to operating cost

Management & administration overhead
Real estate & facilities

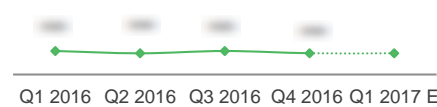
Wages



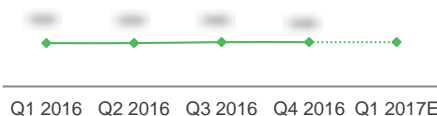
- Wage growth in India in Q4 2016 XX as compared to last quarter
- Office rentals XX in this quarter, as XX
- Overall, the operating costs went XX by XX% in INR, XX than what was observed in the last quarter
- INR depreciated XX against USD, XX in Q4 2016
- Overall, net operating costs for service providers 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

Pricing models for RPA solutions

Pricing models	Description	Examples
Input-based pricing	<ul style="list-style-type: none">• Per license- or robot-based pricing• XXX• XXX• XXX	
pricing	<ul style="list-style-type: none">• Per transaction-based pricing• XXX• XXX• XXX	
Fixed pricing	<ul style="list-style-type: none">• Milestone-based pricing• XXX• XXX• XXX	
based pricing	<ul style="list-style-type: none">• XXX• XXX• XXX• XXX	

PricePoint research calendar

■ Published
 ■ Current

Topic	Release date
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
PricePoint™: Q4 2016 Points to Consider in the Pricing of Outsourcing Services	April 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 the 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 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:
Abhishek Sharma, Vice President:
Rahul Barwe, Senior Analyst:
Aditya Nagori, Analyst:

sarthak.brahma@everestgrp.com
abhishek.sharma@everestgrp.com
rahul.barwe@everestgrp.com
aditya.nagori@everestgrp.com

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



About Everest Group

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Dallas (Headquarters)

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

Bangalore

india@everestgrp.com
+91-804-276-4533

Delhi

india@everestgrp.com
+91-124-496-1000

London

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

New York

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

Toronto

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

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