



PricePoint™: Q4 2017

Points to Consider in the Pricing of Outsourcing Services

October-December 2017: Complimentary Abstract / Table of Contents

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 - **PricePoint™**
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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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Guide to interpreting pricing dashboards for outsourced IT and business process services

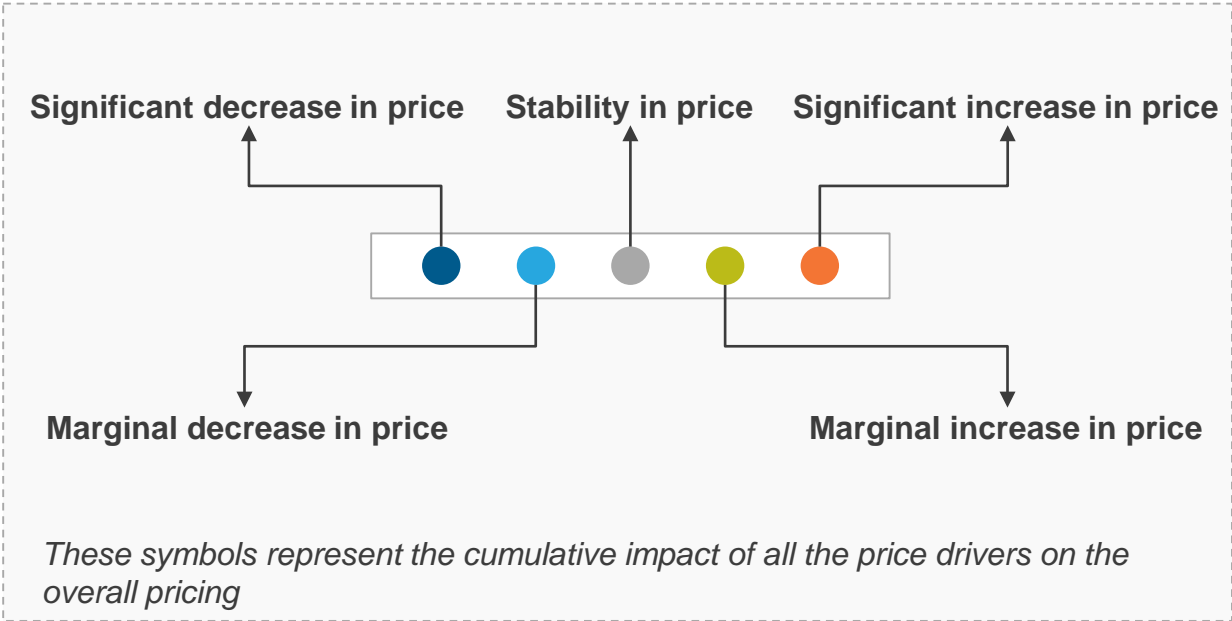
Area

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 2017

Overall trend in Q4 2017 ● ● ● ● ● 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 2018 ● ● ● ● ● Demand and size of deals is XXX. The digital sector XXX. Demand for XXX outsourcing is likely to XXX, which would XXX

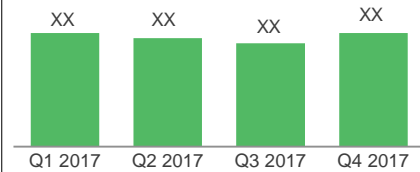
Dimension	Price driver	Impact Q3 2017	Impact Q4 2017	Conclusion
Demand-side factors	Deal size	■	■	<ul style="list-style-type: none"> In Q4 2017, number of deals, more specifically the smaller deals XXX XXX led the XXX, while XXX was expectedly muted Deal mix (ADM, IO, and ERP/SI deals) XXX XXX sectors, which came across some headwinds in Q3 2017, recovered well in Q4 2017
	Deal volume	■	■	
	Value mix	■	■	
	New deal-renewal mix	■	■	
<i>(Refer to pages 8 and 9 for details)</i>				
Supply-side factors	Resource utilization	■	■	<ul style="list-style-type: none"> Utilization levels XXX in Q4 2017 as compared to the last quarter SG&A cost saw XXX, primarily due to XXX Indian IT players had XXX as XXX
	Overhead cost	■	■	
	Financial performance	■	■	
<i>(Refer to pages 10 and 11 for details)</i>				
Macroeconomic factors	Inflation	■	■	<ul style="list-style-type: none"> Q4 2017 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
	Forex rates	■	■	
<i>(Refer to pages 12 and 13 for details)</i>				

Pricing dynamics in outsourced IT services

Snapshot

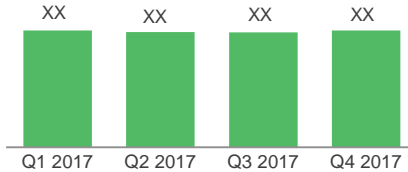
Demand-side factor

Size of ITO deals announced US\$ billion



- Q4 2017 witnessed XX
- This may be attributed to XX
- Deal size for XX registered XX, while that for XX witnessed XX

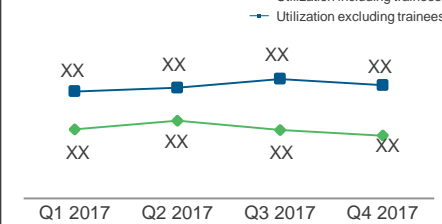
Total ITO deals announced Number



- The demand for ITO services XXX in Q4 2017. Key contributing factors were:
 - XX
 - XX
 - XX

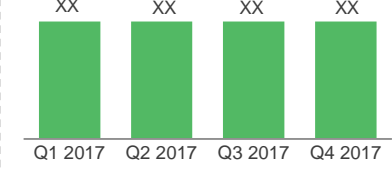
Supply-side factors

Resource utilization



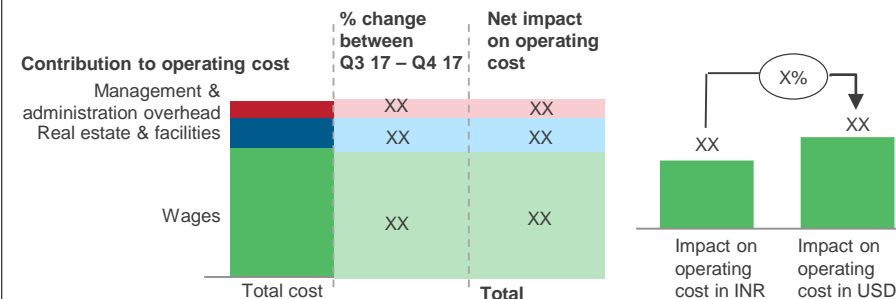
- Q4 2017 continued to witness XX in the resource utilization levels over the previous quarters. This was primarily due to :
 - XX
 - XX

SG&A



- SG&A expenses, as a percentage of revenue witnessed XXX in Q4 2017 as :
 - XX
 - XX
 - XX

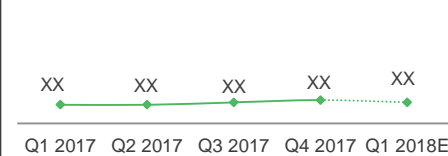
Macro-economic factors



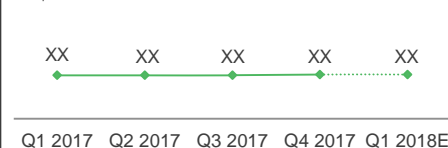
- Wage growth in India in Q4 2017 XX as compared to last quarter
- Office rentals XX in this quarter, as XX
- Overall, the operating costs went XX by XX% in INR, XX than what was observed in the last quarter
- INR appreciated XX against USD, XX in Q4 2017
- Overall, net operating costs for service providers XX by XX% in USD terms, accounting for XX

Trends and future outlook

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 offers the solution strategies and commercial models typically employed in infrastructure support tools

Tools solution strategies

We have seen multiple approaches being leveraged by providers when it comes to tools deployment

Implication for clients: ● Very High ● High ● Medium ● Low

Tools Solution	Key Implications				
	Short-term cost implications	Implementation complexity	Time to go-live	Sustainability/longevity	Reusability of existing logic
Greenfield tools implementations	●	●	●	●	●
Enterprise-leveraged tools	●	●	●	●	●
Hybrid option – tools stack that leverages existing investments	●	●	●	●	●

- Providers are increasingly trying to pivot clients toward greenfield implementation because of their own investments in developing standard tools platforms
- In the XXX approach, providers leverage enterprise investments in tools which help them remain price-competitive in Request For Proposal (RFP) situations
- XXX approach may typically require process reengineering for currently designed processes and process designing for the missing ones

Competitive differentiators

Tools-related levers leveraged by service providers for better competitive positioning

Protect client investments

Providers try and protect client investments in tools by proposing tools which can be easily integrated with the existing ones

Subscription models

Providing flexibility in the form of pay only for what you use "Tools-as-a-Service" models along with modular structure

Competitive one-time set-up costs

Many service providers have become aggressive toward one-time set-up fees and offer good discounts on these fees

Homogeneity

For many on-premise solutions, one of the key tools solution tenets we observed is standardization to fewer tools and removal of redundant tools while maintaining functional completeness

Cloud deployment

Ability for the tools solution to be deployed in the cloud, on-premise dedicated client datacentre or on shared multi-tenant instances

Deployment timelines

Fast deployment for hosted, shared, or dedicated tools instances ranging from only two to four weeks

Research calendar – PricePoint™

Published
 Planned
 Current release

PricePoint Reports

Release date

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
PricePoint™ Q1 2017 Points to Consider in the Pricing of Outsourcing Services	July 2017
PricePoint™ Q2 2017 Points to Consider in the Pricing of Outsourcing Services	September 2017
PricePoint™ Q3 2017 Points to Consider in the Pricing of Outsourcing Services	December 2017
PricePoint™ Q4 2017 Points to Consider in the Pricing of Outsourcing Services	April 2018
PricePoint™ Q1 2018 Points to Consider in the Pricing of Outsourcing Services	Q2 2018
PricePoint™ Q2 2018 Points to Consider in the Pricing of Outsourcing Services	Q3 2018
PricePoint™ Q3 2018 Points to Consider in the Pricing of Outsourcing Services	Q4 2018

Note: For a list of all of our PricePoint reports, please visit the [PricePoint](#) on our reports portal

Additional Pricing Assurance research references

The following documents are recommended for additional insight into the topic covered in this research. The recommended documents either provide additional details or complementary content, that may be of interest:

- 1. Evolution of Governance Models in the Digital Era** ([EGR-2017-9-V-2141](#)); 2017. For years, the three-tier governance structure had become standard in the proposals that were submitted to enterprise buyers. While the three-tier structure remains the same, the focus is shifting from governance being primarily a “delivery construct” to a “value enabler,” in line with the changing landscape. In this research, we analyze enterprise expectations and how suppliers are addressing those asks by transforming their operating models. The focus is on contemporary CIO expectations from the governance layer, innovative methods, and best practices across suppliers
- 2. Windows Upgrades – Price Benchmarks** ([EGR-2017-9-V-2099](#)); 2017. Most enterprises try to optimize their IT infrastructure steady- state run costs. However, one-time transformation-related costs can be an equally significant component that tends to get ignored. This white paper explores the types of upgrades in end-user devices, various commercial models leveraged by service providers for upgrades, and price benchmarks for upgrading Windows on end-user devices
- 3. The Obscure Choke Points in IT and BPO Services Contracting** ([EGR-2017-9-V-2081](#)); 2017. As a sign of outsourced IT and BPO services maturity, Everest Group has observed contract benchmarking clauses being diligently invoked at regular intervals. The focus of most benchmarking exercises tends to be on the directly “visible” levers. However, there are a number of levers that remain hidden and are often ignored, resulting in untapped optimization potential. This viewpoint outlines some of the common obscure “choke points” that buyers need to be aware of, in order to avoid significant value leakage in contracts

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