



PricePoint™: Q1 2018

Points to Consider in the Pricing of Outsourcing Services
January-March 2018: Complimentary Abstract / Table of Contents

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In addition to a suite of published research, a membership may include

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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

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.

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	15
Section II: Pricing dynamics in outsourced business process services	16
• Pricing dashboard	17
• Demand-side analysis	18
• Supply-side analysis	20
• Key macroeconomic factors	22
• Trends and future outlook	25
Section III: Featured research	26
• Alternate pricing models – trends and comparison criteria	27
Appendix	35
• Glossary of key terms	36
• Research calendar	38
• References	39

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

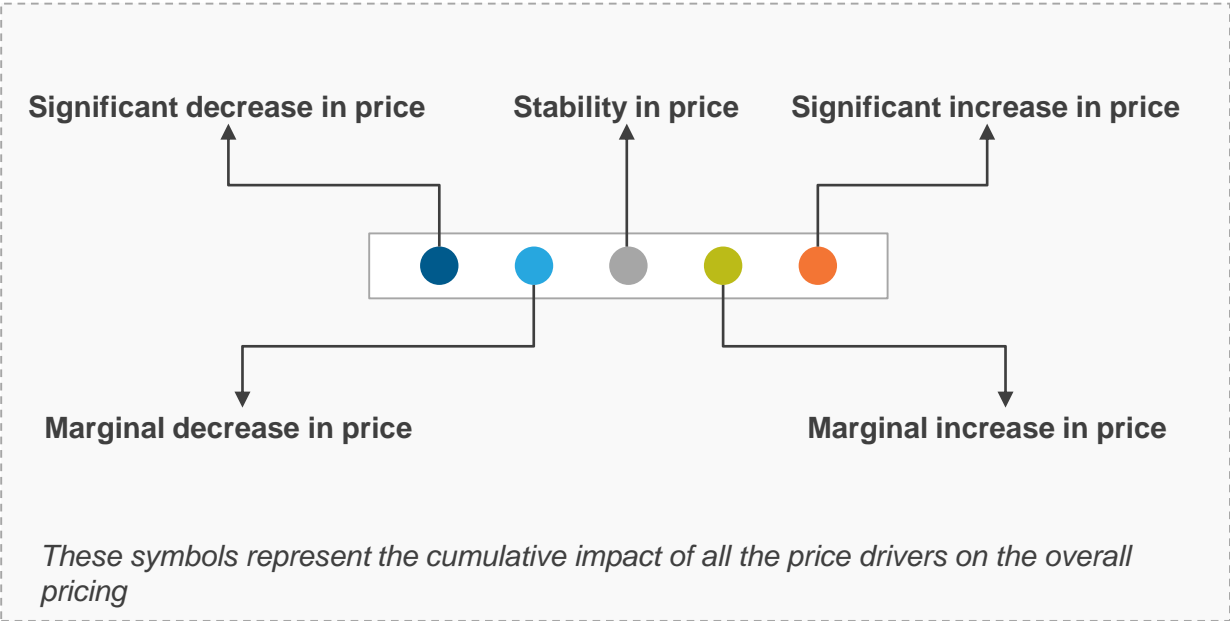
Area

Impact of price driver

Pricing implication symbols



Overall price trend/outlook



Pricing dynamics in outsourced IT services

Pricing dashboard – summary of pricing drivers in Q1 2018

Overall trend in Q1 2018		<p>Despite some softness in key verticals, this quarter witnessed a good momentum in deal activity, especially for services related to digital, cloud, and security. With an increase in multi-tower deals, suppliers passed on the synergy benefits to enterprises. Pricing in USD terms increased marginally in this quarter</p>
Outlook for Q2 2018		<p>Demand environment for ITO services may be impacted in the short run due to escalating trade tensions between the United States and other major markets, though the underlying digital services demand is likely to persist. Pricing is expected to remain competitive at major offshore markets</p>

Dimension	Price driver	Impact Q4 2017	Impact Q1 2018	Conclusion
Demand-side factors	Deal size	↑	↔	<ul style="list-style-type: none"> Steady performance observed in the mid-sized & large-sized deal segments in this quarter along with some growth in the small-sized segment Enterprises have become more open to trying out point-specific solutions for automation, IoT, analytics, etc., with an increasing interest in AI & blockchain Increase in multi-tower or combination deals lets the service provider exercise synergies across the teams (mainly in the governance layer) The ratio of new deals to total deals declined slightly in Q1 2018, thus reducing the new demand in the market <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"> Resource utilization rate, including trainees, increased in this quarter due to better planning and management of size and composition of the workforce SG&A costs remained largely unchanged in this quarter Revenue growth rate saw an increase for both global and Indian providers, with marginal improvement in the operating margin for Indian IT providers <i>(Refer to pages 10 and 11 for details)</i>
	Overhead cost	↓	↔	
	Financial performance	↔	↑	
Macroeconomic factors	Inflation	↔	↑	<ul style="list-style-type: none"> Wage in India and the United States saw a slight increase in this quarter along with real estate and facilities costs The appreciation of INR over USD increased the operating costs in USD terms <i>(Refer to pages 12 and 13 for details)</i>
	Forex rates	↑	↑	

Factors affecting pricing dynamics in outsourced IT services

Price movement has been impacted by the movements in the below three levers (which have been analysed in the previous slides)

Key macroeconomic factors

- Operating cost inflation in India & the United States
- Forex movement in India & the United States

Demand-side analysis

- Deal size mix
- Number of ITO deals announced
- Value mix of ITO deals
- New deal renewal mix in ITO

Supply-side analysis

- Resource utilization
- Overhead cost (SG&A expenses)
- Revenue growth (YoY)
- Operating Margin



Factors affecting pricing of ITO services

In the next slide, we have captured the impact of the above factors on the actual price movement for ITO deals at offshore and onsite locations. It also showcases the expected future outlook for Q2 2018.

Featured research offers the trends and comparison criteria for alternate pricing models

Switching pricing models | How the models stack up

Accordingly, select a pricing model that best addresses the priority objectives

○ Does not address objectives at all ● Addresses the objective completely

	Reduce total cost	Improve control of service	Increase flexibility	Improve risk management
Input-based pricing	Control of cost is limited to headcount alterations ○	Buyer controls input allowing limited control over quality and volumes ●	Supplier can scale headcount with requirement ◐	Buyer's responsibility ○
Fixed pricing	Cost is fixed and predictable only within a fixed volume range ◐	Works best for mature and stable environments ◐	Applicable to a defined volume with variance within the band ◐	Effective in transferring risk to supplier if cost is the primary consideration ◐
Output-based pricing	Supplier incented to drive productivity gains ◐	Buyer controls outcomes through SLAs and volumes through price bands ●	<ul style="list-style-type: none"> Scale service with demand Limited quality flexibility 	Buyer can variabilize costs and avoid paying high fee for low volumes ◐
Outcome-based pricing	Practical usually if desired outcome is cost savings ◐	Limited control due to pre-defined outcome Buyer controls the outcome but not the process ◐	Limited flexibility due to defined outcome ◐	Effective in sharing risk for cutting-edge projects with uncertain outcomes ●

Comparison of pricing models

Advantages and disadvantages of input- and output-based models

	Input-based model (typically FTE-based pricing)	Output-based model (typically transaction-based pricing)
Key characteristics	<ul style="list-style-type: none"> Priced per resource type. Differs by skill, scope, and location Volume discounts for more resources structured as bands Example – per analytics FTE 	<ul style="list-style-type: none"> Based on volume of transactions (discrete commoditized units of work) for a given process Example – number of orders processed
Pros	<ul style="list-style-type: none"> Easier to understand, benchmark, and implement, especially if process visibility is low Tracking performance and reporting are fairly easy Truly reflective of service provider's internal cost structure 	<ul style="list-style-type: none"> Closely tied to buyer's business activities; only pay for consumption Encourages productivity and efficiency Buyer needs to remain engaged at a strategic level but no day-to-day responsibilities Process improvements are driven by service provider's motivation to reduce internal costs and improve margins
Cons	<ul style="list-style-type: none"> Limited risk-sharing with the service provider – not closely tied to business need/outcome Cost of governance for buyer is high Encourages buyer tendency to micro-manage, based on parameters not linked to outcome No explicit motivation for service provider to improve performance beyond service levels 	<ul style="list-style-type: none"> Fairly complex structure requiring sophisticated governance Strong due diligence required and not easily benchmarked Perceived loss of control is higher Although the pricing structure is not headcount oriented, it is often initially sized/costed with headcount
When to use	<ul style="list-style-type: none"> Typically used in pricing complex processes or services that have a high degree of uncertainty When buyer and supplier behavior is not desired to be result-based Is best-suited for high-end consultative services 	<ul style="list-style-type: none"> Suitable for transactional processes When the buyer wants more clarity and guarantee on pricing Encourages buyer tendency to micro-manage, based on parameters not linked to outcome No explicit motivation for service provider to improve performance beyond service levels

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

Note: For a list of all PricePoint™ reports published by us, please refer to our [website page](#)

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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